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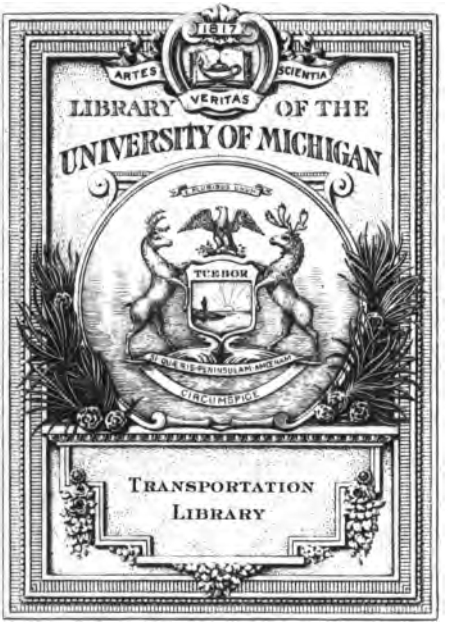
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MUNICIPAL OWNERSHIP

MUNICIPAL OWNERSHIP

FOUR LECTURES DELIVERED AT HARVARD UNIVERSITY 1907

BY LEONARD DARWIN

AUTHOR OF "MUNICIPAL TRADE"

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DEDICATED, IN GRATEFUL REMEMBRANCE
OF THEIR KINDNESS, TO MY FRIENDS
ACROSS THE SEA IN CAMBRIDGE.

L. D.

LONDON,
October 1907.

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LECTURE I

OWNERSHIP NOT THE MAIN QUESTION

HAD this course of lectures been delivered in England, "Municipal Trade" would probably have been selected as the descriptive title; because these words would best have brought to the minds of Englishmen the range of the subjects to be dealt with. Municipal trade is, however, an ill-selected phrase; for it focuses the mind too exclusively on questions connected with profit and loss. When I had the honour to receive an invitation to deliver a course of lectures in the United States, in order to indicate their scope, I decided to entitle them "Municipal Ownership." But, even though a title may not be misunderstood, it may do harm by giving an initial bias to the mind; and it is, therefore, worth considering briefly whether "Municipal

Ownership" is a more happily selected phrase than its English equivalent "Municipal Trade."

What we wish to ascertain is whether the word "ownership" gives a true indication of the main aims of the advocates of municipal ownership. In ordinary conversation this word is somewhat loosely used. In speaking of the owner of a farm, we often mean the individual who leases the farm to a farmer, and who, during the currency of the lease, has no power to deal with the land, his action being confined to the extraction of a rent. On the other hand, when we speak of the owner of a shop or a manufactory, we more often mean the person who conducts the business, and consequently makes the profits or sustains the losses. Ownership having, therefore, different meanings, it is possible that the advocates of municipal ownership may have very different ideals in their minds.

Although questions connected with the technical legal ownership of the land on which are built the municipal industries we are about to consider are no doubt important, yet I am convinced that this controversy in England does not, and will not, in truth, rage round this question of legal ownership. In order to illustrate this point, a brief allusion must be

made to the way in which in England water-works, gas-works, electric lighting works, and street railways are owned and managed, these being the industries most commonly municipalised. But first let me say, in a parenthesis, that if all my examples are chosen from Europe, it is not because I fail to see that much is to be learned on these subjects on this Continent. It is simply because it would be folly, if not worse, for an Englishman to come to preach to Americans about America.

In all the industries just mentioned there is seldom any direct effective competition; and for this reason they have been described as municipal monopolies. We are all familiar with the fact that each urban district is as a rule supplied by only one gas-works. Now, as regards English legislation, these municipal monopolies may, broadly speaking, be divided into two classes, which may perhaps be described as the older and the newer municipal monopolies. Water-works and gas-works belong to the former class, being subject to laws framed many years ago. The newer monopolies include electric lighting works and street railways, the Acts of Parliament by which they are controlled having been passed

somewhat more recently. These later Acts, therefore, serve to indicate, in comparison with the more old-fashioned legislation, the drift of modern ideas; and it will therefore be best for this reason to confine our attention for the present almost entirely to these newer municipal monopolies.

Taking street railways as an example for discussion, we find that they may be managed in three distinct ways in England. In the first place, they may be owned and worked by municipalities, the employees being directly paid by the civic authorities. This is analogous to the case of an owner, who farms his own land.

Again, English cities, whilst retaining the legal ownership of the street railways, may lease them out for terms of years to private corporations[1] for management, a rent being received which would usually be included in the ordinary municipal revenues. Here the municipality plays the part of the landowner who

[1] Where there is a difference in the words used in America and in England, the American example has been followed. For "corporation," "street railway," and "franchise," the English reader should read "company," "tramway," and "concession." "Industry" and "local taxation" have also been used where "trade" and "rates" would be the more usual equivalents in England.

lets out his land to a farmer, and only benefits from his possessions by receiving a rent.

In both the foregoing methods of management, the municipality is the technical legal owner of the industry. Lastly, street railways may be both owned and managed by private corporations, in which case they have, as a rule, been constructed under the Tramways' Act of 1870. In accordance with the provisions of this Act, corporations can obtain franchises which enable them to build and manage street railways, the municipalities concerned, however, retaining the right both to purchase the works at the end of a period of twenty-one years, and in the meantime to draw from the corporation an annual payment or rent. When the franchise period of twenty-one years has elapsed, a municipality may either undertake the management of the street railway itself, in which case it ceases to belong to the class of street railways now under consideration; or it may permit the same private corporation to continue to manage the business under similar conditions to those obtaining during the first term of the franchise. In this case the municipality adheres strictly to its original functions—namely, those of an administrative body.

Thus street railways in England may be either owned and managed by municipalities; or owned by municipalities and leased out to private corporations for working; or, lastly, owned and managed by private corporations under conditions imposed by the State. But it is the comparison between these two last methods of operation to which attention is now called: that is, to the contrast between railways owned by municipalities and leased to private corporations, and railways owned and managed by private corporations. In both cases the municipality is for the moment doing nothing whatever with regard to the street railway but extracting a rent from its managers; and in both cases there are definite stated periods at which the municipality may either take possession of the railway or make fresh terms with the managing private corporation as to rent and fares. There are no doubt important differences between these two methods of operation. But in these, the most important respects, there is a close similarity between them; although in the one case the municipality is, and in the other case it is not, the technical legal owner. One is a case of municipal ownership and the other is not. Yet the choice between these two methods arouses but a very feeble interest in England, and it appears, therefore,

that technical legal ownership is not the fundamental point at issue.

The contrast which does excite interest is that between industries in which the employees are paid by the municipalities and those in which they are not so paid; and from this it follows that the direct employment of labour is, in truth, the pivot about which this question turns.

The expression "municipal ownership" is now so well understood that its use cannot be avoided. But we must not be led by its use to divert our enquiry from its proper course. The foregoing considerations lead me to believe that the following two questions will indicate the points to which our attention should be mainly directed, and will bring us straight to the heart of this controversy. At all events, the following are the questions which are now proposed for your consideration:

1. What is the best method of controlling those municipal monopolies in which the employees are paid by private proprietors?
2. What are the urban services in which it is on the whole best that the work should be performed by employees directly paid by the civic authorities?

This is nearly equivalent to asking in what cases should we abolish the contractor, that word being used in its widest sense.

THE REGULATION OF PRIVATE INDUSTRY

Although at first sight this first question may appear to have no connection with municipal ownership, yet good reasons can be adduced for dealing with it in connection with this enquiry. One of the main functions of education should be to make us take broad views of every subject; and certainly few sources of error are more common amongst uneducated persons than those which arise from regarding only one side of a question. Here, in the United States, you are asking yourselves whether it would be a beneficial reform to municipalise a considerable number of industries. But it is surely not enough merely to consider whether municipal ownership would be an improvement on private industry as it now exists. Enquiry should be made concerning all possible methods of reform in order to decide which would produce the best results. If the

discussion is not conducted in this spirit, the result may be a proposal to start reforms in a wholly wrong direction. Municipal ownership might be better than private industry as the law now stands, whilst private industry under wiser regulations might be better than municipal ownership. Reforms in both these industrial methods must therefore be considered.

The subject now to be discussed is therefore the best method of controlling private industry. A great deal might be said on this question; but my remarks will be brief in order to enable me to revert to other questions more directly connected with municipal ownership. In fact, my only object will be to show that much remains to be done in the direction of improving the laws affecting the control of municipal monopolies in private hands.

In order to shorten this enquiry, reforms desirable only in the case of monopolies in private hands will alone be considered. Many reforms may perhaps be desirable with regard to all industry, whether in private hands or whether conducted by civic authorities; but these reforms may now be dismissed, because, being applicable both to municipal and private industry, they would not affect the comparison between the two. Again, although it is true

that municipal ownership in England is not always confined to monopolies, yet no legislative safeguards are required to protect the consumer where competition is both free and effective; because the power of rapidly changing his source of supply at any time gives him in these circumstances the best possible safeguard. Thus, as regards public interests, the enquiry may safely be limited to the reform of monopolies in private hands; and, if so limited, the main points to be considered are the methods of ensuring to the consumer the best possible return for his money—not only immediately, but in the long run; and, as regards the taxpayer, what is usually known as the capture of the unearned increment of value.

As to the capture of the unearned increment of value, here again we have a phrase from the use of which we can hardly escape, although, in truth, it is somewhat objectionable; because it tends to make us, like gamblers, think only of gains and be blind to possible losses. In rapidly-growing towns, franchises for the establishment of gas-works, for example, are very valuable possessions: possessions which frequently keep increasing in value year by year. The causes of this increase of value of

municipal monopolies need not here be discussed; but certainly they are largely beyond the control of their private proprietors. Is it right, then, that these private proprietors should reap the bulk of the benefit of this increase of value? Obviously not, especially if, like the gambler, we may be blind to their possible losses; and arrangements should always be made, when new franchises are being granted, for the capture of this unearned increment of value for the benefit of the public.

In the case of the industries here described as the newer monopolies, this end is gained in England by making the franchises granted to their owners terminable in a given number of years; twenty-one, as already remarked, in the case of street railways, and forty-two in the case of electric lighting works. At the termination of these franchises, the cities in question can enter into possession of these works, and thus acquire for themselves any growth of value which had occurred during these periods; or, if the private corporations be then permitted to retain the management, the same result can be equally well obtained by the rents paid to the cities then being raised. It is true that, during the currency of a franchise, a private corporation may gain somewhat on account of

any unexpected growth of the city. But this is in reality a comparatively small matter; especially if unexpected losses be taken into account. Thus, if a system of terminable franchises be adopted, the capture of the unearned increment of value from the private proprietors of municipal monopolies in reality presents no serious difficulties.

We are, however, discussing private industry mainly with the view of comparing it with municipal ownership; and it is obvious that this increment of value (as well as any decrement of value) of municipal monopolies will fall undiminished into the lap of any city which actually builds and manages such industries. Moreover, if a city owns its own street railways, for example, but, instead of managing them, leases them out to a private corporation for management, it can capture the unearned increment of value at the termination of the lease by raising the rent. Thus, under any system of municipal ownership, the unearned increment can be captured; and in this respect there is little to choose between municipal ownership and private industry: provided that with private industry the private proprietors are granted franchises for short periods only. Unfortunately, both here and in

England perpetual franchises have frequently been granted; and, as long as this mistake continues to be made, so long will municipal ownership undoubtedly continue to present advantages as regards the capture of the unearned increment.

Most citizens will, however, be interested, not so much in the dry bones of a future unearned increment of value, but rather in present prices: a point as yet untouched. The owners of monopolies would doubtless, if permitted, charge the price which would bring them in the greatest profits; and this price would, as a rule, be considerably higher than that which would be charged by the same corporations if subject to free competition. How, then, is the owner of a franchise of a municipal monopoly to be forced to charge competitive prices? If perpetual franchises are to be granted, the difficulty of controlling the private proprietor appears to be insurmountable; because it is impossible to include, within such franchises, provisions framed to meet all the many alterations in the conditions affecting prices which must occur as years roll on. In the franchises for English gas-works, sliding scales of prices dependent on the dividends paid are, it is true, always included.

Some provision of this kind should always be inserted in franchises; but it is quite impossible thus to solve this problem completely.

If, however, franchises are granted for short periods, as in the case of street railways in England, comparatively little difficulty need be experienced in regulating prices or fares. During the currency of a franchise, the threat to expel the private proprietor at its termination is a powerful weapon in the hands of the civic authorities, greatly assisting them in making unreasonable corporations see reason; and at the expiry of a franchise, a new scale of prices could always be arranged. This is, in truth, but another way of indicating the advantages with reference to the capture of the unearned increment of value which cities may obtain by retaining the right to terminate all franchises granted to private proprietors.

Thus far only the price of the goods supplied, and not their quality has been considered; whereas price always means the price of goods of a known standard of quality. In certain cases it may not be easy to clearly define in words a measurable standard of quality. But, as regards water, gas, and electricity no such difficulty arises; and, granted that the franchises are properly framed, all that

is required as regards quality is the appointment of inspectors not open to corrupt influences —a condition more easily stated than complied with.

No doubt, when a franchise has been granted to a private corporation for a limited period, considerable difficulties may arise during the currency of the franchise and at its termination. Whether this will be the case or not depends mainly on the care bestowed on the framing of the franchise. Obviously the rent, if any, to be paid by the operating corporation to the municipality, and the scale of prices permitted to be charged, must be laid down. But in addition to this, the system of valuation to be adopted in determining the value of the works at its termination should be clearly defined. The right to inspect the works and the books of the private proprietors should be retained by the civic authorities. The watering of capital should be prohibited as far as possible; and corporations should be rendered incapable of transferring their rights to others without permission. Lastly, as a rule, an absolute monopoly should be granted to one corporation for a given district. Time makes it impossible for me to argue in favour of all these provisions thus imperfectly outlined; but both

theory and experience point to the conclusion that, if they were always included in franchises, the civic authorities ought to be able to ensure the public being well served, and there would be no reason why the transfer of the business of any municipal monopoly from one corporation to another, or to the city itself, would present any great difficulties.

But even if a decision be arrived at as to the general nature of the provisions to be inserted in franchises, yet it must not be supposed that it is easy to decide on the exact terms which should be enforced. With regard to all regulations as to the control of private industry, there are opposing aims which cannot be reconciled; and it is only possible to seek for the wisest compromise between them. As in so many social questions, the conflict is often that between present benefits and future benefits. The present benefits in this case consist either of low prices paid by consumers, or of high rents paid by the operating corporations; whilst the future benefits to be held in view are those which would result from rapid commercial progress. If a Local Authority, desirous of seeing electrical works established, for example, is too rigid in its demands as to the price of the electricity, it may be a long

time before private promoters will come forward to undertake the work. Thus to clog the wheels of industry might inflict an immediate injury on the public which would far outweigh the ultimate benefits resulting from rigid provisions as to price and quality. Scales of prices must be so framed as to make it reasonably certain that corporations will be able to obtain the normal rate of interest on their capital; for, if this be not done, the future will be sacrificed in a futile attempt to grasp at present benefits.

Difficulties of the same type arise with regard to the number of years for which franchises should be granted. The shorter the period, the sooner, it is true, will the city be able to appropriate any increase in the value of the industry due to its own growth. But the profits made by nearly all undertakings are at first small as compared with the capital invested; because the business begins to grow but slowly, and, during that growth, the capital expenditure must be on a scale suitable for a larger output than that demanded. A corporation, so it is urged, must be granted security of tenure for a considerable number of years to enable it to recoup itself for its sufferings during the initial stages of its existence.

In other words, very short franchises, as ordinarily framed, will not tempt the investor sufficiently to induce him to invest his money in the industry in question. In England concessions, as they are there called, were at first granted to corporations for both street railways and electric lighting works for periods of only twenty-one years; and the effect was to greatly cripple these industries. This may be illustrated, as regards electric street railways, by the fact that there were 15,000 miles in operation in 1900 in the United States, as compared with less than 1,000 miles two years later in Great Britain. As to electric lighting, it is hardly an exaggeration to say that the English legislation of 1882, with its limitation of twenty-one years for franchises, utterly paralysed that industry—a paralysis from which it showed no sign of recovery until 1888, when the franchise period was increased to forty-two years. As regards both these industries, my country has undoubtedly been left far behind some other countries in the industrial race; and, in my opinion, this is largely due to the action of the legislature and of the municipalities in endeavouring to enforce too rigid conditions.

But why were these restrictions imposed if they were, in truth, so harmful? Was it merely

that, whilst the advantages of short franchises were perceived, their disadvantages were not at first foreseen or were never admitted? Such an explanation, no doubt, partly accounts for the English method of controlling private corporations; but only partly, for other powerful influences have been at work. The advocates of municipal ownership have great power in the House of Commons, and their object is always to leave a door open for the direct management of municipal monopolies. Long-period franchises would obviously postpone the possibility of municipal ownership for a long time, and against them persistent opposition has been maintained. The crippling of the electric industries of England, due to the short period of the franchises granted, is therefore, in my opinion, mainly the indirect result of the desire for municipal ownership on the part of the civic authorities in that country.

There is, however, another method of attracting capital besides that of granting long-period franchises. At the termination of a franchise period, if the works are to be bought compulsorily by the civic authorities, they must be valued; and in England the method of valuation is such that corporations do not get

compensation for either formation expenses or initial losses. Private proprietors therefore object strongly to this damaging blow being inflicted at an early date. But there appears to be no reason why the system of valuation should not be such as to afford a reasonable compensation to corporations at whatever date they are bought out. With short-period franchises, combined with a more liberal system of valuation, capital might be attracted quite as certainly as by the existing English system of long-period franchises adopted for electric lighting works. Unfortunately, reform has not been sought in this direction.

Before leaving this subject, one strong objection to short-period franchises must be briefly mentioned. Whenever the date is reached at which a corporation may be bought out by the civic authorities, then will be the moment at which corrupt influences are most likely to show themselves; and the shorter the franchise period, the more often will these dangerous epochs occur. This, no doubt, affords a serious argument in favour of long-period franchises; although, in my opinion, the difficulty would best be met by permitting cities to buy out corporations owning franchises at all times under a reformed system of valua-

tion, there being, therefore, no fixed recurrent dates at which the demon of corruption is especially likely to be roused. This question of corruption will, however, be dealt with in a subsequent lecture.

But, whatever be the exact terms of the franchises granted to the private proprietors of municipal monopolies, it is, at all events, folly to trust to private enterprise, and at the same time to strangle it at its birth. It is, in fact, impossible to obtain ultimately all the benefits due to rapid commercial progress, stimulated by large profits to shareholders, as well as all the possible immediate benefits due to rigid terms as to price and rent. A compromise must be made between these antagonistic ideals, and that compromise must be one which is fairly satisfactory to the investing public. Justice does not demand any special consideration being shown either to promoters or to capitalists as such. But our policy must be influenced by the fact that by shutting them off from all chance of earning reasonable profits, we may thus injure rather than benefit all other classes.

The regulation of the private ownership of municipal monopolies is, therefore, a matter of considerable difficulty, and in England, at

all events, it leaves much to be desired. But English experience does indicate, it appears to me, that even with the existing defective legislation, fairly satisfactory results can be obtained by trusting the management of municipal monopolies to private corporations with franchises for short periods. In Massachusetts some excellent legislation on this subject has been passed; but even here probably more remains to be done; whilst a wide field is open to the reformer in other States. It is very desirable that more interest should be aroused on this side of the question, because this would probably result in private industry being everywhere more wisely controlled.

Advanced socialists will no doubt declare that they care nothing for reforms which are not avowedly communistic; for they hope to see all industry owned and managed by the representatives of the people. But every sane and temperate man, even if he be a socialist, must see that private industry will not be abolished entirely for many years to come. Individualists, on the other hand, hold that, as regards most industries, private enterprise will always produce the best results. In fact, whether we think that private industry is to remain with us for ever, or whether we think

that it is only to be tolerated as a necessary step in social evolution, we must agree that its proper control will for a long time be a subject of great practical importance. The advocates of municipal ownership now draw the larger audiences; but whoever will play the less conspicuous part of endeavouring to improve the methods of regulating private industry will be doing admirable service for his country.

Thus far I have endeavoured to point out that there are two methods of reform open to us when dealing with municipal monopolies in private hands. There is the conservative method of reforming the control over private industry; and there is the drastic method of municipal ownership, as it is not too aptly termed. The second of these methods, that of municipal ownership, must now be considered. But this preliminary enquiry concerning the control of municipal monopolies has been necessary in order to indicate that, if it should appear as regards any industry that municipal ownership would be an improvement on private industry as now conducted, it does not follow that it would be better than private industry controlled by regulations which the nation might adopt at any time if it saw fit.

MUNICIPAL OWNERSHIP AND LOCAL TAXATION

As regards many social questions, the arguments for and against any proposed reform can be set forth like the briefs of opposing counsel when pleading before a court. But, in the case of municipal ownership, almost every subject-matter for discussion has been used in the foundations of the arguments of those who are pleading both for and against this method of dealing with municipal monopolies. First to take the whole case on one side, and then to take the whole case on the other, would involve a considerable amount of repetition; and it is, therefore, more convenient to discuss one subject after another, and to consider the bearing of each on the whole question. And the first subject here to be dealt with will be that of finance.

The finances of municipal industry, though it certainly is not the most important topic to be considered, is the part of this controversy which is most discussed in England. Questions connected with civic purity and sanitation are, however, in my judgment, more important.

Moreover, although money affords the best method of weighing human desires for goods for immediate consumption, and, although economists are right, therefore, in making price a subject to be treated at length; yet, when weighing either future benefits against present benefits, or precautions as to health and morality against other immediate wants, price is a very fallible guide. These considerations, which tend to lessen the importance of finance in all social questions, are not, however, the only reasons why other subjects should take a more leading place as regards municipal ownership; for the discussion on which we are about to enter will show that no very substantial gains or losses have been sustained by England as a whole because of the indulgence of its cities in municipal industry. This is, however, somewhat anticipating the result of that discussion. But it is very important to note from the first that any conclusions which may be arrived at from a study of English municipal statistics can only be held to be sound in so far as the experiences of England may be taken as a sure guide, and on the assumption that municipal ownership is not to be adopted to a greater extent than it is now practised in England. If

more industries were municipalised than is usually the case in England, the financial effects might become very important.

Two questions were suggested as being those most likely to bring us quickly to the heart of this controversy; and of these, the second was as to when it would be best in the interests of the community at large that municipal services should be undertaken by employees in the direct pay of the civic authorities? In other words, when is direct employment advisable? As regards municipal industry in England, it is nearly all carried on by directly employed labour. It is true that, in the Government statistical returns, there are included certain street railways leased out to private corporations; but these will be always omitted in any figures relating to municipal industry here quoted. We shall therefore be dealing with industry entirely or almost entirely operated by direct employment. It is true that most of these industries were bought from private corporations and that the works themselves were for the most part built by private proprietors; and also that some works have been built or added to by contract for the municipalities now owning them. Thus very few municipal works in England both have been

built and are now being operated by directly employed municipal labour; and unfortunately these few cannot be separated from the rest. If they could have been studied separately, the financial results thus obtained might have been more conclusive than those now obtainable. As it is, all we can do if we wish to study the financial results of direct employment in England is to make these statistics of the municipal industries of that country form the basis of our enquiry. In other words, we can, and we must, study the finances of direct employment and of municipal ownership at one and the same time.

The imperative necessity of regarding all sides of social questions has already been insisted on, and nowhere has this precaution been more flagrantly neglected than in the popular discussions concerning the finances of municipal ownership. Hundreds of extracts from English newspapers might be quoted, each pointing to the profit made in a particular municipal enterprise, the inference being drawn that local taxation had in consequence been thus reduced: and this, apparently, without a thought having been given by the writers as to the exact meaning to be attached to these statements. Do they point to a comparison with

a state of affairs when the cities in question had no street railways, if that were the profit-making industry? Obviously not; because street railways would have been built, whether municipalised or not. The meaning of any such statement must therefore be that a certain city has made a profit of so many dollars by a municipal industry; whilst, had the industry in question remained in private hands, no such sum would have found its way into the municipal treasury, and taxation would not thus have been reduced.

Assuming this to be the meaning intended to be conveyed by these statements, can they be accepted as giving an accurate representation of the facts? In Birmingham, for example, the street railways were until recently managed by a private corporation, which paid a considerable rent to the city for its privileges. The franchise period expired, and the municipality had to choose between again leasing out the street railways to a private corporation and managing them itself. The decision was in favour of municipal management, and the city itself began to make a profit on its newly acquired industry. But it cannot be said that taxation was thus reduced by an amount equal to this profit; for the fact that a rent

was no longer receivable must be taken into account. Possibly the point at issue may be made more clear by means of figures. Let it be assumed that a private corporation was paying a rent to a city of $200,000 a year for a street railway franchise; that this industry was municipalised; and that subsequently the city only made a profit of $100,000; that is $100,000 less than the amount previously received in the form of rent. Should we say that the city was making a profit of $100,000 a year by the street railways it had municipalised? Or should we say that it was losing a like amount by that venture? Both statements could be logically justified.

The truth is that the English language is deficient in words for our purposes. But, to make the best of those we have, the figure indicating the balance of the working account of a municipal industry will here be called the profit or the deficit, as the case may be; whilst the figure indicating the comparative decrease or increase of the total financial burden falling on the citizens in consequence of the municipalisation of an industry will be called the gain or the loss, as the case may be. Thus, any increase of expenditure and any income foregone as the result of a municipal industry being undertaken must be

deducted from its profits in order to ascertain the gain. This is not, it must be admitted, a very happy choice of words; for it is necessary to say, as regards the imaginary case just quoted, that the city was making at the same time from its venture both a profit and a loss of $100,000 a year! Any suggestion as to a more suitable phraseology will be gladly accepted. But if it were asserted that a city showed a profit on its industries, whilst the ventures in question ought to be regarded as being run at a loss to the city because of rents larger than the profits having been foregone, here the words profit and loss do not appear out of place, although used as defined above.

Accepting the definitions of these words, it will at once be admitted that the question of gain and loss is far more important than the question of profit and deficit. Yet it is the profits of municipal industries to which reference is perpetually being made. How, then, are we to arrive at the more important figure representing the gain, or the net effect on the community generally? No very satisfactory answer to this question has as yet been suggested.

One method of arriving at the desired result, which at first sight appears to be very simple, is to compare the taxation in cities where there is

much municipal industry with the taxation in cities where there is but little. If it could be proved that local taxation always varied inversely with the amount of municipal industry undertaken, then it would be safe to conclude that municipal industry reduced the taxation or was a gain in this respect. Many doubts and difficulties, however, beset this enquiry: the first to be met with being the choice of fair lists of cities for comparison. Only one single investigation of this kind, which has been made in an impartial and scientific manner, is known to me; and the result of this investigation shows that municipal industry appears to be associated in England neither with high nor with low local taxation.[1] It is, however, somewhat puzzling at first to find that an increase in the municipal industry in any city is quite undoubtedly associated with an increase in taxation. Citizens may therefore with confidence look forward to an immediate increase in their local taxation if the city in which they dwell begins to tread the path of municipal industry. This apparent contradiction may be explained in more ways than one. It may be that the ultimate gain cancels the initial loss, and that in this way, on the average, no gain or loss

[1] Miss Alice Lee, *Economic Journal*, September 1903, p. 424.

on municipal industry is made. Or it may be that the same spirit which makes civic authorities municipalise many industries induces them also to be either progressive or extravagant in other directions. Thus this method is surrounded by difficulties; the results are somewhat difficult to interpret; and, moreover, no account is taken of the relative level of prices in municipal and in private industry. We are therefore, perhaps, not justified in accepting the conclusions arrived at, as more than an indication that English cities make neither great gains nor great losses by their industrial ventures. This is certainly not a satisfactory conclusion to arrive at, and it would be most desirable, if possible, to find some more certain method of ascertaining the financial effect of municipal ownership.

LECTURE II

MUNICIPAL STATISTICS

In my last lecture I began to deal with the financial aspect of municipal ownership, which is, in truth, the most unsatisfactory part of this whole controversy. In it we appear all the time to be sailing in a fog, through which, I fear, I cannot pilot you to any very secure resting-place. What we wish to ascertain is whether English municipalities *gain* by their municipal industries, not merely whether they make a *profit* thereon. The method of attempting to arrive at a conclusion on this point already discussed, namely, the consideration of the question whether cities where municipal industry is extensively practised are taxed more or less heavily than those which trust largely to private enterprise, was found to be full of difficulties; and it is, perhaps, wise to quote the results only as indicating that no great gains or losses result from municipal

industry in England. We are therefore still groping our way in the fog.

Another possible method of attacking this problem is to ascertain, in the first place, what are the profits made by a city out of its municipal ventures; and, in the second place, what are the sources of income which it foregoes in consequence of its abandonment of private industry; and, finally, by deducting this foregone income from the profits, to obtain the actual net gain to the city. This is no doubt the commonest way of trying to solve this problem, the necessity of making any deductions from the profits being, however, frequently forgotten by the advocates of a forward municipal policy. An attempt will now be made, without any such lapse of memory, to arrive at definite conclusions by this method.

Manchester makes so many thousand dollars a year out of its gas-works, and why should not we do the same? This is the most elementary form of the usual financial argument in favour of municipal ownership. But even if nothing else had to be said, it must be admitted that, in all social questions, averages are more trustworthy as guides than single instances. We see sometimes in fruit shops that only the

best of the fruit is exposed to view at the top of the baskets, it being evidently intended that the simple-minded customer should judge the whole by these especially selected specimens. Now the methods of such vendors are not wholly dissimilar to those adopted by those advocates of municipal ownership who are constantly harping on the profits of municipal gas-works, which are no doubt considerable, whilst maintaining a discreet silence with regard to the net profits of English electrical lighting works, merely because they happen to be a negative quantity. On the other hand, if we could conceive the object of a salesman being to prevent the public from buying his goods, the least tempting fruit would be exposed to sight; and this would be similar to the practices of certain opponents of municipal industry who do nothing but harp on the subject of municipal failures. If selected specimens cannot be trusted in the buying of fruit, this is equally true in judging of municipal industries; because each industry is subject to exceptional conditions, and the errors thus introduced can only be eliminated by considering the average of the results of a considerable number of industries.

This point may, perhaps, be illustrated by a

reference to English gas-works, on which the profits, as already remarked, have been considerable. The amount of the profit made obviously depends on the price charged for the gas; and, since this industry is practically a monopoly, this price is regulated to a large extent by custom or example. English private gas-works have very unwisely been granted perpetual franchises; and on this account it is not improbable that they are now charging prices above what may be described as the competition level, with a corresponding increase of profits. It follows that if English municipalities have been at all influenced by the example set by these private corporations as regards the price charged for gas, their profits also will have been swollen in like manner: an influence not felt in English municipal electrical works, because perpetual franchises have not been granted to the owners of private electrical enterprises. The profits of municipal gas-works taken separately ought not, therefore, to serve us as a guide.

On similar grounds, the consideration of the profits obtained in single cities should be barred. We must not pick and choose our examples; because the exceptional conditions obtaining in any one city may modify the

results there obtained so as to make it impossible for other cities, where no such exceptional advantages exist, to follow its example. Good results in municipal industry may, for example, be partly attributable to exceptional business capacity on the part of a local governing body. But town councillors who claimed to possess this exceptional advantage—that is, to be wiser than the average of other town councillors—would certainly generally be held by others to be in reality unwise themselves. They should not refuse to be guided by averages, and should avoid the consideration of separate cities or industries; and we should do the same.

Looking, therefore, only to the average financial results of municipal ownership, possibly the best way to indicate in the fewest words the general situation in England is to liken the whole municipal industry of that country to a large industrial corporation. Judging by a return made to Parliament in 1902, the capital put into this great municipal venture at that date was $600,000,000[1]; whilst the interest paid to the shareholders, to continue the simile, was nearly $23,000,000,[2] or a little under 4 per cent.

[1] £120,000,000. Round numbers only are given in these lectures.

[2] £4,500,000.

on the capital. But it must not be supposed that this sum, which I have likened to the interest to shareholders, found its way undiminished into the municipal treasuries. In establishing these industrial concerns, not only had large debts been incurred, the interest on which had to be provided out of the gross profits; but sinking funds had also to be provided, it being obligatory in England that all municipal industrial debts should be paid off in a given time. Thus less than $2,000,000[1] went to the relief of taxation: a sum, however, which will increase continually as the debts are liquidated, until in time English municipalities, so it may be urged, will enjoy the full income of $23,000,000[2] without any deduction for interest or sinking funds.

It should, however, be noted that if none of the debts had been liquidated at the date of this return, the interest and charge for sinking funds on the whole capital provided would have been more than the $23,000,000[2]; and a small net deficit would have been shown, instead of this small net profit of about $2,000,000.[1] In other words, in so far as these average results in England may be taken as a guide, we ought to anticipate, when a new

[1] £360,000. [2] £4,500,000.

municipal industry is being established, that a slight deficit would at first be made: a deficit which would be converted into a fairly substantial profit some forty years afterwards, when the debts were all liquidated.

Thus painted the financial picture is not unpleasant to look at; for, although it appears that a city establishing a municipal industry ought to anticipate a probable deficit, yet this deficit would probably be so small that the citizens ought to be willing to run this risk for the sake of material future profits. If all my fellow-countrymen were to be convinced that each new municipal venture would probably add to the immediate burden of local taxation, this movement would no doubt receive far less support than it does at present, even though this, in truth, afforded no proof that municipal industry was on the whole financially disadvantageous. There are, however, many other circumstances which ought to be taken into account, some of which tend to brighten this picture, but more to tarnish it. As an example of the former, there will be found amongst the enterprises included in this return such services as baths, wash-houses, and burial grounds; which certainly were not undertaken with any idea of making a profit.

But even if these items are entirely omitted, the interest on the remainder is only raised to about 4 per cent. on the total capital provided. On the other hand, English municipal accounts, although they are on the whole well kept, have been subject to telling criticism, with the object of proving that the profits of these municipal ventures are not really so high as they are thus shown to be.

These questions connected with accounts are, however, too technical here to be dealt with at length; and only the most important of all these criticisms will be mentioned—namely, that with regard to the depreciation in the value of municipal property. According to the above-mentioned return, the amount set aside to meet this depreciation is less than ¼th per cent. on the total capital; and it can hardly be denied that this is very inadequate. Municipal authorities may, however, rightly urge that the citizens of to-day are paying off the whole debts incurred in starting these enterprises; and that they are in effect presenting these industrial works as a free gift to posterity. Posterity, they may add, has no right to grumble if called upon, when possessed of these free gifts, to put them in good repair, and the present generation

is not, therefore, under any obligation to create a large depreciation fund. This is sound enough. But those who use such arguments in effect admit that further capital expenditure for these industrial concerns will be necessary in future, and that, consequently, the gross profit of $23,000,000 will never find its way undiminished into the municipal treasuries of posterity. If full commercial depreciation were charged, as it ought to be, at all events, for the purposes of this argument, it would then be seen that the gross profits to be anticipated in the future would be materially less than the figure above mentioned.

But even if a careful investigation should prove that English municipal industries will in future be a source of considerable profit to the cities concerned—this is certainly not the case at present—yet this would tell us nothing whatever as to whether these cities, in truth, gain or lose by these enterprises. Whatever certain advocates of municipal ownership may do, we must not forget to look at the other side of the question, and to consider what sources of income these cities have foregone by transferring these industries from private to public ownership.

The circumstances which have to be taken

into consideration in fairly estimating the gains and losses due to municipal ownership are too numerous all to be mentioned here. Many of them arise from the fact that a city has, as it were, two pockets for money — an industrial pocket, and an administrative pocket; and it appears at first sight to matter but little which pocket is used. Town councillors, who have established some industrial enterprise, like to show good results; and, when it can be so arranged, they naturally desire to avoid drawing money from the industrial pocket. The sin may be but a trifling one, for no one may be directly injured, the result merely being that the causes of any industrial loss, namely, unavoidable failures or honest blunders, are kept in a subdued light. Councillors are, after all, human beings; and, where all are thus tempted, some will fall. As a single instance of the possible effect of this human weakness, the lenient assessment of municipal property may be mentioned. A tax on municipal industries is merely, it may be thought, a useless transfer of money from the industrial to the administrative pocket; and a very inconvenient transfer when the contents of the industrial pocket are running low. Thus a city's industrial property may be more

lightly assessed in England than if that same property had remained in the hands of a private corporation. But, where this is the case, the additional tax, which would have been received from the private corporations had they remained as the owners, must be deducted from the profits shown in the city's industrial accounts in order to ascertain the true gain to the city resulting from its municipal enterprises. In England this is probably not a very important point; but if I am right in supposing that municipal property is not taxed in the United States, here this may be a very important deduction from municipal profits, and the point is one which must by no means be overlooked. Anyhow, it affords a convenient illustration of the many difficulties which are met with in comparing the finances of municipal and private industries.

Several other circumstances might also be mentioned which in like manner throw a doubt on the validity of accepting municipal profits as being an indication of municipal gains: as, for example, the possibility of charging the administrative account too highly for the lighting of public places, or of including in that account the capital expenditure for the widening of streets for street railways. All but

one of these possible criticisms will be passed over in silence; that one being so important that it must be briefly considered. For the purpose of illustrating the point in question, take the case of a landowner who owns a farm which has just fallen into his hands at the termination of a lease, and who is doubting whether or not he had better farm the land himself. In these circumstances there certainly never was a landowner so stupid as to forget the fact that, by farming the land himself, he would forego the rent he might obtain from a farmer if he were instead again to lease out the farm. Yet it seems that a blunder closely akin to this is constantly being made with regard to municipal ownership, the rent which might have been obtained from private managers being overlooked. Taking street railways as a convenient example, they are divided into two classes in the Parliamentary return of 1902, already mentioned, namely, those owned and worked by municipalities, and those owned by municipalities and leased out to private corporations for working. These returns undoubtedly indicate that those civic authorities who lease out their street railways to private corporations make a larger gross profit on a given capital than those who work them

themselves; the gross profit being equivalent to the net profit which may be anticipated when all the debts are liquidated. As to the immediate results the case is not so clear; but the figures indicate that a city should expect to obtain, whilst the debts remained unredeemed, a net profit of about $\frac{8}{10}$ths per cent. on the capital, by working its own railways; whilst by leasing them out it might expect to make about 2 per cent., provided that the same conditions held good in the two cases as to sinking funds. But if a city only makes less than 1 per cent. by municipal management, whilst it might have made 2 per cent. by leasing, may we not fairly say it is losing over 1 per cent. by its municipal venture? Such calculations are untrustworthy for various reasons; but we may, at all events, fairly conclude that the fact that English municipally-managed street railways are making a profit is consistent with the belief that English citizens would have been less heavily taxed had none of the street railways been worked by the direct employment of municipal labour.

As to the other industries which are managed by civic authorities in England, rents could in many cases have been drawn from private corporations had they been granted the necessary

franchises enabling them to undertake the management; though, it is true, we have no means whatever of estimating how large these rents would have been. No doubt, as regards certain industries, had they not been municipalised, they would have been managed by private corporations with perpetual franchises rent free, the English law being what it now is; and the cities in question would have been in receipt of no income from them. But under a reformed system of legislation with regard to private industry, we may safely assume that a very considerable sum would have been flowing in the form of rent from private corporations into the municipal treasuries had no municipal industry existed; and this sum ought to be deducted from the municipal profits in order to estimate the advantages or disadvantages of municipal industry compared to well-regulated private industry.

Accepting the foregoing as being the results of a study of English municipal statistics, an endeavour must now be made to draw general conclusions therefrom. Judging by average results, it was seen a city, when starting any new municipal venture, ought to expect to make a small deficit as long as the debt remained unredeemed, and to have to make

good this deficit by additional taxation. It was also seen that, not only would this anticipated deficit probably be larger than the Government returns appear to indicate, but that, in order to ascertain what would be the loss at first in consequence of the abandonment of the system of private industry, the rent which might have been drawn from a private corporation must be added to that deficit to ascertain the loss: a rent which, judging from the average results of English street railways, would amount to 2 per cent. on the total capital. English statistics, therefore, do not disprove, and may, it appears to me, be quoted as giving some support to the view which I hold, namely, that English cities have increased the immediate burden of taxation by their municipal ventures by over 1 per cent. on the capital sunk thereon. This conclusion will, perhaps, be readily accepted until it is seen what further deductions can be made from it. The sinking funds which English cities are obliged to find for the redemption of their industrial debts amount to a little more than 1 per cent. on the capital thus sunk; and if it is true that the taxation is increased by a like amount in consequence of these ventures, it follows that this sinking

fund is in reality all drawn from the pockets of the people by additional taxation; or, in other words, that every penny which English cities have invested in industrial ventures has been raised by taxation which would not have been raised had the industries in question not been municipalised. The profits which will eventually be made out of municipal industries consist, therefore, of nothing but the interest on the invested savings of the people: an interest which each individual might have obtained for himself had the money not been drawn from him by taxation. If this be a correct view of the situation, it seems fair to conclude that England, if she is not losing, is gaining nothing whatever by her municipal enterprises.

PRICE AND QUALITY

Complicated as has been this discussion, it has been simplified by leaving out one whole side of the question, a side which in reality cannot be omitted, if sound conclusions are to be reached. It may be said, and it has been said, that municipal industry does not, it is true, result in any direct financial gain to the municipal treasuries, but that the goods thus supplied are both better

and cheaper than those supplied by private proprietors. The result is, so it is urged, a gain to the consuming public. This is a legitimate argument in favour of municipal ownership in so far as facts can be brought forward to substantiate it; and it should therefore be examined. Time makes it impossible, however, for me to dwell at length on the questions thus opened up for consideration; nor is it very desirable to do so, if, as is probable, the result would be to thicken rather than to lighten the fog through which we are passing. A few words must, however, be said.

Figures have no doubt been quoted to prove that the price charged for gas in England by private corporations is higher than that charged by municipal gas-works. The difficulty in such comparisons is to eliminate all the other elements of difference besides the one the results of which we wish to investigate. In all the published results known to me, it appears that the population supplied by each private gas-works is on an average smaller than the population supplied by each public gas-works; and it is probable, therefore, that the private gas-works supply less densely populated areas. But gas-works in scattered districts cannot produce gas as cheaply as works in more crowded districts; the chief

reason being that the capital expenditure on gas mains is proportionately greater. It is therefore not improbable that gas from private works is dearer, not because of the private management, but because the population supplied is less dense. In fact, municipal authorities, being free to establish works everywhere, have generally done so in the most favourable localities, only the districts rejected by them being available for the operations of private corporations. In such investigations it is essential that all circumstances affecting prices, such as the average relative level of wages, the cost of materials, etc., should be taken into consideration, or the results will be more or less fallacious. For lack of such precautions, all existing comparisons of the relative prices of gas, electricity, water, etc., produced by municipal and by private industry are, in my opinion, untrustworthy.

It is, moreover, not only the relative price, but the relative quality also which has to be taken into consideration. Even in those industries in which comparisons of quality can be made with accuracy, they will be as fallacious as the comparisons regarding price if the effects of all the other elements of difference are not eliminated. As regards water, gas and electricity, it is, for example, doubtful whether, on the whole, the

civic authorities do test their own productions as rigidly as they test the productions of private corporations. Again in some services, as, for example, in the case of street railways, the quality of the service supplied is largely a matter of opinion; and, in endeavouring to compare the results of public and private management in this respect, we can do little more than decide on the weight to be attached to flatly contradictory statements. The terms of the franchises which have been granted to the private proprietors must also be held in view when comparing their performances with those of civic authorities. For example, a private corporation may be working a street railway with the knowledge that it may be—and almost certainly will be—bought out before long by the municipality; and the terms on which they would be expropriated may make it impossible for the private proprietors to adopt improvements except at a risk of financial loss; whilst the municipal street railways, with which the comparison is being made, are never hampered in a similar manner.

Thus, whether we consider price or whether we consider quality, it is now impossible to tell for certain, by direct evidence, which supplies the cheapest and best goods, municipal industry or

private industry. It follows, therefore, that the conclusions arrived at as the result of our statistical enquiry — namely, that it is more probable that cities are losing than gaining by their municipal ventures—though it is rendered more doubtful, is not contradicted by extending the enquiry so as to include the questions connected with price and quality.

A PRIORI ARGUMENTS

To those who are only acquainted with the newspaper accounts of English municipal industry, this result may, perhaps, appear surprising. It may be as well, therefore, briefly to consider on *a priori* grounds the probability of a city making a gain or a loss on any industry which it may undertake to manage. In a large number of cases, English cities have bought gas-works from private corporations, the price paid being the commercial value of the industry at the date of the purchase; and these cases may be regarded as being typical of municipal industry generally without introducing any serious errors. When considering such a transfer of property, it is first to be noted that the income received from the works, both before and after municipalisation, may be divided into two parts: the first part

being that paid away in management expenses, including wages, cost of materials, etc.; and the second part being that available for the reward of capital, or the interest on shares, stocks or loans. These two divisions, which together make up the total income, are received by the private proprietors before municipalisation, and pass into the municipal treasury after the works become public property.

In order to discuss the transfer of these two parts of the income separately, we may, in the first place, assume that the city in question will manage the industry neither more nor less efficiently and economically than the private corporation it succeeds; or that the amount of income absorbed by management expenses after municipalisation will be the same as it was before the transfer of the works. We may also assume for the purposes of this discussion that prices remain unchanged, or that the consumer is not affected by the transfer; in which case the total income received will obviously be the same before and after municipalisation. But both the total income and that part of it absorbed in management expenses being the same, the remaining income available for all other purposes must be the same also. In other words, after

municipalisation, the city, when it has covered all the management expenses, will find itself possessed of an income available for all other purposes which is neither greater nor less than the sum which the private managers had previously paid away in interest to their share and debenture holders. Now it has been assumed that the works were purchased at their true capital value; and consequently, the sum which the municipality must raise by way of loan to effect the purchase represents what was the capital value of the works whilst in private hands. But all capital is drawn, broadly speaking, from the same money market, and the tendency is for all lenders of capital to obtain the same reward for their services, or the same real rate of interest for their capital, whoever be the borrower. The city will, therefore, have to pay about the same amount in interest for this given capital as was previously paid away by the private proprietors in interest on shares and loans; and it will find, therefore, that this being the total amount of its available income, it has nothing over for any other purpose whatever. But in England cities are forced to find sinking funds in addition to the interest on loans. The conclusion, therefore, at which we arrive, when municipal industry

is regarded in this broad *a priori* way, is that, granted that no change takes place in the management, the income just covers the whole of the expenditure other than the charge for the sinking fund, and that this sinking fund must be covered by raising additional taxation; or, in other words, that a city gains nothing and loses nothing by such a venture.

A reason frequently given for believing that municipal ownership will be a source of gain to a community is no doubt that municipalities can borrow money at a lower rate of interest than can private corporations: an argument which directly traverses the conclusions just arrived at. The investor who buys gas corporation shares gets, it is true, a higher immediate return on his investment than the investor in city loans. But this is really not to the point; because the money is raised on wholly different terms in the two cases. Private corporations can only give their own works and profits as security for capital and interest. Municipalities, on the other hand, not only give this same security—namely, the municipal works and the profits thereon—but they in effect give the whole real property of all the citizens as an additional security. Thus a decline in dividends or in value is vastly more probable

in the case of corporation stocks than in the case of the loans of great cities. What we want to know is the average over a long period of the total payments made by corporations to capitalists, calculated as a percentage of the total money expended on the concerns in question. Is this percentage higher than the interest paid by cities for their loans? There is no statistical proof that it is higher, and no proof, consequently, that cities initiating industries can make a profit because of their method of raising funds. Moreover, it is the gains that we are considering, not the profits. A city might often make a profit by buying gas-works, and by then raising the price of gas. Profits may also be insufficient to cover the interest on industrial loans, and additional local taxation may be raised to make up the deficit. And if prices be thus raised, or if taxation be thus increased, this increase in the burden on citizens must for the purposes of comparison be added to the interest payable on the industrial loans; because citizens escape these burdens under a system of private industry. Or, in other words, part of the profits of municipal industry should be regarded as an insurance against the additional risks thus thrown on the community. Thus

there are several reasons why a mere comparison between the interest paid by cities on their loans and the immediate return to investors on their investments gives no sure indication of the possibility of cities gaining from municipal industries. It may, indeed, be a fact that the mere prestige attached to the name of a great city may help it somewhat in borrowing money, and thus slightly facilitate its industrial ventures. But this is certainly but a small gain, and it is one which cannot now be estimated.

Thus, if it be assumed that the management will become neither more nor less economical when industries are transferred to public bodies, these *a priori* arguments indicate that a trifling gain to a city may be made by its municipal industries. But is it right to make any such assumptions as to the management? In other words, can goods be produced as cheaply by the direct employment of municipal labour as by private corporations or by contract work? Something may be said on both sides of this question; but general considerations tell, on the whole, heavily in favour of the belief that municipal production will be more costly than private production.

The strongest argument in favour of the belief

that direct employment is economical relates to the expenses of superintendence. When municipalities do work by the direct employment of labour, only one set of inspectors or superintendents are required to supervise that work; whereas, in the case of work managed by private proprietors, municipalities may not be able to trust to the superintendents paid by the private corporations; in which case they must also employ inspectors on their own account, thus increasing the cost of production. This is a valid argument in favour of the direct employment of labour by municipalities when the cost of superintendence forms a comparatively large percentage of the total cost: as, for example, in the case of small bodies of men employed in road-making. But as regards most of the industries usually municipalised in England, such as the supply of water, gas and electricity, the cost of municipal inspection is very small, and in such cases this argument should carry but little weight.

On the other hand, there are many strong reasons for believing that production by labour paid directly by municipalities will be materially more costly than production by private proprietors. A detailed examination of the difficulties of economic management by public

, occupy too much time, be attempted is to point ions why these difficulties icipal and not in private general causes the most t that the municipal vote in the district in which he is employed er words, he frequently ction or the removal of is, of course, never the e industry. The muni- n fact, an inducement is employee which the not feel. The wages in England are, it is . definite and conscious ruption, but rather as the result of party bids for popularity with this portion of the electorate. Whether this be the true explanation or not, and whether justifiable or unjustifiable, it is, however, certainly a fact that municipal workmen are paid more highly than their brothers in private industry.

Any undue consideration for the feelings of municipal employees which is rendered probable when large numbers of voters are employed in municipal industries, must also militate against

the efficiency of the superintendence of these works. Discipline must have some tendency to become slack when employers have one eye on the vote, and cannot fix both firmly on the work. Moreover, the power of paid officials both of dismissal and of selection on account of merit are for the same reason generally very strictly controlled in municipal industry; and this makes it impossible for the heads of departments to carry on business with the same efficiency and promptitude as is possible in private works. Lastly, civic authorities often pay inadequate salaries to their leading officials, because by so doing they gain the applause of the mass of the voters. In respect to the voting power of employees, the nearest approach to the condition of affairs obtaining in municipal industry is to be found in certain co-operative manufactories. The comparison is not, however, an encouraging one; for, when the employees are given votes for the election of their own managers, these undertakings rarely flourish. In one respect the superintendence may be even more inefficient in municipal industry than in co-operative manufactories; for, when anything like the spoils system exists, municipal officials are frequently changed. Thus, even if municipal

workmen were no more highly paid than private workmen, for all these various reasons, municipal production by direct employment would probably be more costly than private production.

As regards the other underlying considerations which indicate the probability of relatively inefficient management in municipal industries, they are applicable, not only where the employees are directly paid by the civic authorities, but often also to industries owned by public bodies, but not thus managed. Of these general causes, the most serious is the absence of the incentive of personal gain in municipal industries. The mass of municipal voters interest themselves but little in the effect on their pockets of any bad management of these industries; whereas shareholders, though often apparently very apathetic, indicate that they are alive to the fortunes of the private works in which they are interested by frequently selling their shares. Such sales of shares act as a stimulus to the managers of private industries which is without an equivalent in municipal industry. Moreover, the directors, often being large holders of shares, have also a personal interest in the economic management of the works under their control. Thus

the desire for personal gain is a stimulus which originates with the shareholders, is reinforced by the directors, and animates the whole organism of private industry in ways too numerous to mention.

The last of the general causes of inefficiency in municipal industries here to be mentioned is the fact that the system of civic administration of our cities was created with the view to the performance of functions very different from those of manufacturers. Political considerations are mainly held in view in the nomination of candidates for local elective bodies, and voters are but little influenced in giving their votes by the relative business capacities of these candidates. In England the aldermen are added to Town Councils by co-option, and in this co-option business qualifications are also but little regarded; but in private industries, where directors are also in effect practically co-opted, the weakness of the Board of Directors in any special direction is often seriously considered when filling a vacancy. For these reasons elected bodies are likely to contain a smaller proportion of men of sound business instincts than are usually found on the managing bodies of private corporations.

Thus, whether we look to the fact that many municipal employees are also voters, or to the absence of the stimulus of personal gain in municipal industries, or to the political character of local elective bodies, we see ample reasons for anticipating that a smaller profit will be made on a given capital in municipal than in private industry.

To sum up these *a priori* arguments, we have seen that the income of which a city would become possessed by purchasing any industry may be divided into two parts. As to that part which went in the payment of interest on the capital of the private proprietors, it was seen that cities when they received it into their treasuries might thus hope to make a very slight gain, because of their higher credit. This is, no doubt, a valid argument in favour of municipal ownership with or without direct employment, but an argument generally grossly exaggerated, through misapprehensions of the facts. The second part, or the remainder of the income of which cities would become possessed by the municipalisation of any industry, is that which covered the expenses of management in private industry; and, as it was seen that these expenses of management would be considerably

increased by the direct employment of municipal labour, it follows that this available income would no longer cover these expenses. A loss much more considerable than the possible gain due to high municipal credit would, therefore, probably be incurred. In other words, the general conclusion arrived at by *a priori* considerations is that a city, even if no sinking fund had to be provided, would make a loss by purchasing any industry and working it by the direct employment of labour, a loss which would have to be made good by additional taxation.

FINANCIAL CONCLUSIONS

Comparing this result with the results arrived at in the previous discussion on municipal statistics, it will be remembered that there also a loss was somewhat vaguely indicated as being not improbable. It may, however, only be safe to conclude that the results of *a priori* reasoning are not refuted by statistics; for certainly a very wide margin of doubt exists as to the gains or losses indicated by English municipal accounts, mainly because of the difficulty of estimating the income

which might be derived from private industry under proper franchise laws, and of making allowance for various questions connected with price and quality. But if such statistical results are unreliable, ought we not to attach great weight to the conclusions arrived at by *a priori* methods? It must, moreover, be remembered that English statistics generally relate to cities where municipal industry only includes a few municipal monopolies, and also that these works have not, as a rule, been constructed by the direct employment of municipal labour. If, therefore, we wish to estimate the effect of the wide adoption of municipal ownership, together with the direct employment of labour, and also of its entry into the field of competitive industry, we have no statistics to guide us, and we must trust almost wholly to *a priori* considerations: considerations which point to the conclusion that a considerable burden of extra taxation would be thrown on the inhabitants of any city in which such experiments were being made.

But if we confine our attention to the municipal ownership of the chief municipal monopolies, when English statistics do become relevant, it must be admitted that we have

been marching through a fog in tracking the truth of municipal finance, and that we may have lost our way. But it can hardly be denied that if municipal industry with the direct employment of labour did not result in a loss, as above suggested, but was in reality a source of considerable gain to the cities of that country, this fact could not possibly have been hidden by any statistical cloak. This conclusion is not unimportant; for if, on other grounds, it should appear, as regards any particular industry in any particular place, that its operation by the direct employment of municipal labour is distinctly undesirable, then the financial aspects of this question may be dismissed without consideration. A re-examination of the facts certainly could not disclose the existence of more than a small gain to English cities on the average; and this small gain could not outweigh any serious disadvantages in other directions which might result from municipal ownership. On the other hand, if my conclusions are right, then the financial results of the direct employment of labour by municipalities must always tell as a material weight in the scales against this method of management.

LECTURE III

MUNICIPAL CORRUPTION

In my last lecture we were considering the financial aspects of municipal ownership; and the conclusion arrived at from a study of English statistics was that, as practised in that country, it is a source of no great gain or loss on the average to the cities practising it; whilst *a priori* arguments pointed to the conclusion that it is considerably more likely to be a source of loss than of gain. Passing on to the more weighty arguments in this controversy, the one most frequently discussed in the United States is probably that connected with municipal corruption. And here again, in dealing with this subject, we shall be considering municipal ownership operated by the direct employment of municipal labour.

One of the points which here appears to tell most in favour of municipal ownership is the belief that it would tend, if extensively adopted,

to purify civic life; whilst in England many of the opponents of this movement base their opposition largely on their conviction that corruption would thus inevitably be increased. Here, therefore, is a flat contradiction of opinions which is well worth investigating.

A sentiment sometimes carries considerable weight because it has been only vaguely imagined, and has never been held up in the cold light of logical reason. Of this type is the following argument, which, although it is generally only perceived in a sub-conscious way, appears to have an illegitimate influence in the United States. There is no country, so the argument runs, where municipal ownership flourishes to a greater extent than in England; in England municipalities are free from corruption: therefore, let us adopt municipal ownership as a cure for corruption. It is true that there is little open and serious corruption in English cities; and it is also true that municipal ownership has there made vast strides in recent years. This argument is nevertheless wholly illogical: which will probably be made apparent when it is translated into a logical form. It might, no doubt, be logically urged that municipal ownership has increased greatly in England; that corruption has decreased

concurrently with this increase in municipal ownership; and that, consequently, municipal ownership has not improbably been the remedy which drove away the disease. This argument would be logical; but, unfortunately, the facts necessary to sustain it are wholly wanting. With regard to all forms of corruption, but especially as to the underground action of respected city thieves, it is always difficult to ascertain the truth, and only personal impressions derived from reading and conversation can here be given. In the greater number of English cities there is nothing worse than a mild type of corruption; and even that is very rare, except in the smaller elected bodies. It consists in local builders getting jobs which outsiders would do more cheaply, and perhaps in officials getting commissions for placing municipal orders. But there are no signs whatever of any lessening of these corrupt practices having taken place simultaneously with the increase of municipal ownership; and, indeed, recent revelations of serious corruption in certain localities make it appear as if there were a back-sliding and not an advance in municipal morality. Thus the coincidence of the existence in England of fair municipal purity and a great amount of municipal industry

cannot in any way whatever be made the basis of an argument in favour of the purifying effect of municipal ownership.

English municipal purity, such as it is, is, in fact, due to wholly different causes. The civic morality of any country is a tree of slow growth, and to account for its form we must study the storms of bygone years. But municipal ownership in England is of recent growth, and has developed with extraordinary rapidity during the last few decades. It is true that municipal waterworks have existed for a long time, and that the gas-works of Manchester were placed under public control as early as 1824; but these are the exceptions and not the normal developments by which the state of a country should be judged. The rate of the increase in municipal industry may be sufficiently illustrated by the one fact that the debts for public service utilities in English cities recently increased by 100 per cent. in fourteen years.[1] It is, however, the directly-paid employees we now mainly have in view; and if the increase in their numbers were known, the figures would probably be even more startling; because, as regards the works for which the debts are raised, the proportion of

[1] See Statistical Abstract for the U.K. Cd., 3092. 1889-90 and 1903-4.

water-works and harbours, where there are comparatively few municipal employees, has been decreasing in recent years. Thus, if history teaches us that the current ethical code is but slowly affected by external causes, it must be admitted that English municipal morality has been as yet comparatively little affected by this movement. On the same grounds, if municipal ownership should now be rapidly developed in the United States, and if, in truth, contrary to my belief, it would have a curative influence, it must also be admitted that whatever faults now exist would continue to show themselves for many years to come.

No doubt many intelligent and thoughtful persons do believe that municipal ownership would tend to stop municipal corruption in the United States. As a stranger I must speak with caution on this subject, and deal mainly in generalities. It may, however, fairly be regretted that those who hold such beliefs do not, as a rule, state at all clearly how this purification is to be affected. Municipal ownership can only produce such beneficial results in one of two ways: it may either directly tend to make those taking part in local government intrinsically purer by planting higher ideals in their minds, or it may lessen corruption by the

removal of temptation from the path of the civic authorities. These, the only two possible beneficial tendencies, must each be examined.

With regard to the first of these possible beneficial influences, it is necessary to enquire why municipal ownership should have an intrinsically purifying effect on civic life. Where great responsibilities are thrown on elected bodies in English-speaking countries, it is true, no doubt, that they generally rise to the occasion. But as regards the larger English cities, the number of the different duties performed by their Town Councils is now so great that any new additions to the list would add but little to the dignity of their position or to the interest taken by the public in their work; and it is difficult to believe that any elevating influence could result from an increase in the burden thrown on their backs. Whether the duties performed by the local authorities of Boston and New York, for example, are insufficient to arouse their civic enthusiasm to the utmost, or whether new responsibilities would heighten their ideals of civic duty, it is for the citizens of this country to judge.

But in such matters we must always look to both sides of the question, and here we must consider whether municipal ownership may not have a deteriorating effect as regards the character

of elected administrators. In England it has frequently been suggested that the number of sound and capable men willing to devote their time to municipal administration is very limited, and that the more capable they are, the more completely will their time, as a rule, be absorbed in their private affairs. The man from whom business has retired may, it is true, be pleased at the thought of managing a municipal industry where his commercial incapacity will cause him little personal inconvenience. But men of the type most needed will frequently be not attracted to, but rather repelled from civic life by any increase in the amount of time and energy demanded from the members of local elected bodies. Moreover, the establishment of many municipal industries in any city will render it less likely that conscientious councillors will be able to retain their seats should they seek re-election. Workmen cannot be blamed for frequently striving for an increase of wages; for apathy on that subject would soon result in their being inadequately rewarded. The inevitable result of such action on their part is, however, that employers constantly have thrust on them the disagreeable task of refusing such demands. But when these demands for extra wages or shorter hours are made by the employees in

municipal industries, many of whom have votes in the locality in which the works are situated, who is it who will be foremost in resisting unreasonable appeals—the conscientious councillor, who merely considers his duty, or the unconscientious councillor who looks mainly to vote-catching? Any opposition to an increase in the wages of municipal employees on the part of a high-minded administrator will not be forgotten at the next election, and he will receive no reward for his virtue, unless, indeed, it be held to be a reward to be relieved from all further necessity of attending to onerous civic duties.

The voting power of municipal employees will, moreover, tend to demoralise the electors as well as the elected. To believe one's self to be underpaid is a common human weakness, and demands for an increase of remuneration are apt to appear merely like demands for justice. But, in making demands for such "just" treatment, the municipal workman must soon discover that his vote is a material assistance, and he is likely, therefore, to come to regard the giving of it more and more as a private privilege and less and less as a public duty to be exercised in the interests of the community at large. This is certainly a downward step in the path leading to corrup-

tion. For instance, is not the municipal councillor who uses his vote on the council for purposes of "graft" likely to be less severely condemned by the municipal workman who looks mainly to his pay when giving his own vote than by the workman in private employment who cannot thus attempt to grind his own axe? When a man on a downward path ceases to condemn others, he generally falls more rapidly himself. Thus the municipal employee is tempted to regard his vote mainly as an engine to be used in bettering his own position, though thus to regard it would have a demoralising effect on himself.

Thus there are opposing advantages and disadvantages of municipal ownership as regards the moral tone of civic life. The municipalisation of industries may act as a stimulus; but, like other stimulants, it is likely to be accompanied by harmful after-effects, lowering the general tone of the body politic. Both electors and elected will be adversely affected by the direct employment of municipal labour—that is, by the payment of voters by the city authorities; and these harmful influences would, in all probability, quite outweigh the beneficial results arising from the increased responsibility thrown on the civic authorities.

In reply to the foregoing contentions, which indicate that municipal ownership is almost certain to increase municipal corruption, it has, no doubt, frequently been urged that civil service reform must be adopted in the United States simultaneously with any great increase in municipal ownership. But it is difficult to grasp the views of those who take up this position. If they do admit that, without some reform in the methods of local administration in the United States, municipal ownership would increase the dangerous tendencies now under discussion, surely they ought to hold that civil service reform should be an accomplished fact before municipal ownership is advocated. But, as a fact, they show no desire thus to postpone the advent of municipal ownership; and it appears, therefore, as if they would deny its corrupting influence. But if they do deny this, why should they in any way link civil service reform and municipal ownership together as component parts of one general scheme? Their attitude appears, in fact, to be illogical. But it may, perhaps, be assumed that the advocates of municipal ownership combined with civil service reform regard the main advantage of municipal ownership to be the consequent removal of temptations

from the path of the civic authorities, rather than its directly purifying influence.

Passing on, therefore, to consider the temptations which may be escaped by cities initiating municipal industries, it should be observed that in England we are quite unfamiliar with the line of reasoning frequently followed in the United States on this subject. The argument as here used may, it is believed, thus be stated. The worst frauds attributed to civic administrators have been committed in connection with the franchises granted to private corporations; abolish these franchises by means of the introduction of direct municipal labour, and this type of fraud must disappear entirely. Certainly this contention is worthy of most careful consideration.

In England hardly any, if any, frauds have arisen in connection with private franchises, and this argument, in this form at all events, falls to the ground as regards my country. But, assuming such troubles to have arisen elsewhere, it is necessary to enquire to what extent the temptation leading to corrupt practices would be diminished by the municipalisation of an industry, a point which has not been probed sufficiently deeply in this controversy. Taking the case of municipal

gas-works, as an example, a very large proportion of the works in England have been either purchased from private proprietors or built by contract; and, where municipal ownership is initiated by either of these methods, ample opportunity for fraud is thus given; forms of corruption which would eventually result in excessive municipal loans and correspondingly swollen payments for interest and sinking funds. After the purchase of the gas-works, the whole of the expenditure on the production of gas, other than the above-mentioned payments on account of loans, would be either on account of the purchase of materials or for the salaries and wages of the municipal employees. When works are both constructed and operated by the direct employment of labour by municipalities, absolutely the whole of the expenditure may be divided under these headings of materials and wages; for in that case, even as to municipal loans, they would have been raised solely to cover these items of expenditure in the original construction of the works. But as regards the purchase of materials, fraudulent contracts and secret commissions would always remain as dangers to be guarded against. And as regards wages, here also it must be remembered that

the civic authorities would always remain under the temptation of buying the votes of the municipal workmen by raising their wages or shortening their hours of work. Thus in absolutely no part of the expenditure in municipal industry, whether it be on loans, materials or wages, does municipal ownership afford a method of escape from the dangers of corruption; and, as regards the facilities for bribery, they would be increased. All that can be said is that the amount of the plunder obtainable by corrupt civic authorities may thus, perhaps, be reduced. In other respects as regards corruption, the municipalisation of an industry will be but stepping out of the frying-pan into the fire.

The exact relative amount of possible fraud under different systems should, no doubt, be held in view; but it is even more important to consider the conditions which are least likely to tend to make corruption either spread or obtain a firmer grip on a city. Whether we look to the conditions affecting the electors or the elected, the foregoing arguments point to the conclusion that corruption is more likely to arise under municipal ownership than with private industry; and the following considerations make it seem probable that, where the

disease does exist, direct employment would increase the difficulty of finding a cure. In all civilised countries there now exist a large number of advanced socialists who believe that under a socialistic system the condition of all workmen could, in fact, be improved. They are, moreover, likely to regard municipal ownership as a stepping-stone by which to gain their ends, and to believe that to pay municipal workmen higher than the market rate of wages would not only not injure other private workmen, but that it would indeed be a benefit to them by serving as a sign-post pointing to the true path of political progress. Socialistic enthusiasts holding these views can hardly be blamed for telling municipal employees that their votes should only be given at city elections to those candidates who promise them better terms of employment than can be obtained in private industry. But would not such agitators as these afford to the corrupt politician precisely the opening he would wish for? If the city authorities are corrupt; if they have in their employment thousands of workmen who, if dismissed from the service of the city, would sink to a lower rate of wages; if there are a number of honest enthusiasts advocating this superior treatment

of municipal employees; if, in fact, all these conditions exist simultaneously, what would be the chances of a party of purity succeeding in throwing off the cursed yoke of corruption? These high-class city thieves might sometimes get less plunder than they would get if they had valuable franchises to dispose of; but they would get that plunder, such as it was, with more ease and certainty. It is the fear of what the future may bring in the way of corruption in England which has led me to urge my countrymen to pause before plunging further into this municipal policy. It is for Americans to consider how far these arguments are applicable to the United States.

It may, however, be urged that where a disease is feared, we should search for an antidote before deciding to swerve from our path for fear of meeting harmful microbes. Political safeguards against corruption might, no doubt, be adopted; and it has, indeed, frequently been suggested in England by persons of liberal views that widespread municipal ownership should be accompanied by the disfranchisement of all municipal employees as regards local elections. A better plan, in my opinion, would be to incorporate them, as it were, in separate constituencies; or, in other

words, to allow municipal workmen to elect to all local governing bodies their own representatives in proportion to their numbers. This proposal would, no doubt, present greater difficulties in the United States than in England. But if such representatives were elected, they would come forward as the avowed advocates of the claims of the municipal workmen, and their position would be both honourable and comfortable; a statement which can hardly be made with regard to the position of certain members of the English House of Commons whose constituencies contain large numbers of voters in the pay of the Government. If this safeguard were adopted, and if it were made illegal for municipal employees to canvas voters not in municipal employment, then municipal ownership might be regarded with much less apprehension. In England it appears, however, as if there were not the slightest chance of any such reform being adopted. If this be equally true here, it must be admitted that the abstract merits of this proposed safeguard afford, in fact, no reply whatever to those who urge that the direct employment of labour by municipalities would both increase the chances of corruption arising in the United States, and

make this pestilence cling more firmly than ever to the diseased city where it now exists.

WAGES IN MUNICIPAL INDUSTRIES

In the foregoing discussion on corruption it was asserted that not only do municipal workmen receive better pay than private workmen, but that many socialists hold that it is right that they should thus be treated. If any plea could be sustained for the payment to the directly-employed municipal workman of a wage above the market rate of wages, then the fact that they are thus paid could no doubt be counted as a weight in the scales telling in favour of municipal ownership. It will, however, be seen that these socialistic arguments crumble to pieces on close examination.

That municipal employees are better off than workmen similarly employed in private industry is, I believe, an indisputable fact, which would not be denied by the advocates of municipal industry in England. When a street railway, for example, has been recently municipalised, the town councillors concerned frequently boast that they have altered the terms of employment in favour of their newly-acquired

employees, either by increasing their pay, or by shortening their hours of labour. A diminution in the length of the day's work must normally be accompanied by an increase in the number of hands employed, unless, indeed, the hours were uneconomically long before the reduction. Although evidence on this point is not altogether wanting, it is impossible to give reliable statistics as to the relative number of hands employed in municipal and private industry, because municipal industry in England has never been subject to the searching enquiry demanded by its opponents. As a solitary example, it may perhaps be noted that in an interesting account of the municipalisation of bakeries in Sicily, Professor Tenerelli states that the number of hands employed rose from 404 to 557 in the first fifteen months of public management. But, whether more hands are employed or not, a great deal of evidence is forthcoming to show that the rate of daily wages is higher in municipal than in private industry.

In passing on to consider whether this is as it should be or not, the analogy of a landlord and tenant may serve us once again. If an eccentric landlord, when he received the rent from the farmer farming his land, were to hand

it over to the civic authorities as a gift to be used so as to reduce taxation, no one could possibly urge that the workmen employed on his land would thus be aggrieved; for they would be thought to be utterly unreasonable if they complained that the money was used for the benefit of the public generally, instead of being handed over to them for their sole use. But if the landlord were to farm his land himself, and were in like manner to devote the profits to the benefit of the public, could this change in his methods affect the rights of his employees? Obviously not. But a landlord farming his own land instead of leasing it to a farmer is closely analogous to a city operating its own street railways, for example, instead of leasing them out for operation to a private corporation. When Birmingham thus leased out its street railways, no one ever suggested that the rent thus obtained by its citizens should be reduced in order to raise the pay of the private employees above the market level. And a rational plea for exceptional treatment can no more be established on the ground that a municipality, instead of leasing out its street railways, operates them itself, than on the ground that a landlord farms his own land instead of letting it to a farmer. A municipality

is a landlord, and its industries are like its farms which it can farm itself or not as it thinks fit, without reference to its employees.

It may, perhaps, be urged that, for a given output and as compared with private industry, municipal industry is less costly in all items except labour, and therefore that the employees may be paid more highly without injuring any one. It has, however, already been indicated in the foregoing financial discussion that this contention cannot be sustained by fact or argument. It may, perhaps, also be urged that although it is true that additional funds must be obtained, yet the necessary taxation would fall more heavily on the rich than the poor, and, consequently, that the municipal employees would on the whole be benefited. The true incidence of the burden of taxation will be discussed in the last lecture; and here it is sufficient to remark that it is not denied that municipal employees are benefited by their exceptional treatment. All that is asserted is that additional taxation must be imposed where municipal industry exists, and that it does injure the private workman somewhat: the greater the amount of municipal ownership, the heavier being the burden thrown upon him. The additional sum required may no doubt be

raised in various ways. To obtain it, it may be that the price of gas, if that be the municipal product in question, would be raised on municipalisation; and in that case it would be on the consumer of gas that the additional burden would fall, and the impost would be like a tax on gas. But if gas is to be taxed, why should not the proceeds of the tax go to benefit the whole community? Surely it must be wrong to levy any sum solely for the advantage of one class, a class which is selected at the best arbitrarily, and at the worst on political grounds. Again, it may be that the impost due to the increase of the labour bill on municipalisation falls on the tax-payer, who either has to make up for any deficit on the gas-works, or who does not receive in relief of taxation the profits he might fairly expect to get from his municipal investment. The impost due to an increase in the municipal wages bill must, in fact, fall on either consumers or tax-payers, and in neither case is it justifiable to make them suffer for the sake of placing a fraction of the community in an exceptionally favourable position.

As another justification of the exceptional treatment of municipal workmen, it has been said that we should not look at questions connected

with wages solely from the narrowest economic standpoint. In all matters with regard to which workmen are careless as to their own true interest, for example as to their health and safety, merely to strive at producing goods as cheaply as possible no doubt does not necessarily point to the right course of action. Although this is true enough, no great weight can be attached to the arguments founded on such statements. It is, indeed, possible that the cost of production in municipal industry ought to be higher than the cost in ill-regulated private industry; for this is not necessarily inconsistent with the true cost to the nation being less, more possibly being saved indirectly to the community in matters of health, etc., than is lost by the extra cost of production. But where private industry is well regulated, all the precautions with regard to health and safety, which municipalities might reasonably undertake voluntarily, should as far as possible be enforced on all private proprietors; and if that were done, municipal industry would present hardly any advantages in this respect over private industry. The true path of reform thus indicated is therefore the enforcement of proper regulations in all industries, and not the promotion of voluntary efforts on the part of civic authorities.

Again, it is often urged that an endeavour

should be made by municipalities to set a good example to other employers of labour, and that exceptional advantages may be granted to municipal workmen—not for their own sakes, but for the sake of workmen in private employment. The validity of this argument obviously depends on whether private workmen are in truth benefited by the advantages showered on municipal workmen. Those in doubt on this point should enquire of any keen manufacturer, in the first place, whether he knows the rate of wages paid by city authorities in his neighbourhood, and in the second place, if he is informed on this point, whether these civic rates of wages in any way affect the terms he offers his own employees. A smile will probably be the answer. It is only because municipal ownership is now almost entirely confined to industries tending to become monopolies that civic authorities can escape from the control of the economic forces dominant in competitive industries, and can both make a profit and give their employees remuneration above the market rate. Where wages are materially influenced by the philanthropic views of an employer in ordinary industry, ruin is likely to be the result; and examples set by the municipal owners of monopolies appear to have no influence on the wages in competitive

industries. The so-called good example as set by municipalities is therefore only possible because of the municipalisation of monopolies; it is almost without any external influence; and it affords a very feeble justification for the creation of a specially privileged class of workmen.

Thus, on the one hand, little can be brought forward to justify municipal employees being placed in a more favourable position than their fellows in private industry; whilst, on the other hand, there appears to be no excuse for imposing an unnecessary burden on the private workman. Moreover, this practice of favouring the municipal employee is also positively harmful for reasons which may already have been suggested by this discussion on corruption. To dismiss workmen from municipal employment not only throws them temporarily out of work, but also generally permanently reduces their wages or increases their hours of labour; and the more power a city has over its employees, the easier is it for corrupt authorities to influence their votes. That municipal workmen do receive more favourable treatment than private workmen is an indisputable fact: a fact which, therefore, on the whole, tells against, and not in favour of the direct employment of labour by municipalities.

THE CASE FOR DIRECT EMPLOYMENT

All the arguments thus far considered have resulted in strengthening the case against the direct employment of labour by municipalities; and the legitimate arguments in its favour must now be discussed. The two main arguments are, in the first place, that municipalities, by actually managing industries themselves, can regulate the prices of the goods sold to the public more efficiently than under any method of industry in which private proprietors participate; and, in the second place, that civic authorities, being less influenced by the desire to make profits than private proprietors, will, as the representatives of the people, pay more attention to all questions connected with morals, health or comfort.

With regard to both these pleas, it is to be noted that industry may, broadly speaking, be divided into two stages, namely, the work of initiation and construction, and the work of management and production. It will be seen that the arguments in favour of direct employment of labour by municipalities apply with

much greater force in the productive than in the constructive stage of industry.

As to the first of the above-mentioned arguments in favour of direct employment, namely, the facility which municipalities undoubtedly possess when they manage an industry directly of regulating the prices of goods, the other aspect of this question has already been discussed in my first lecture, where the best method of controlling prices in private industry was considered. There it was seen that, where competition is free and effective, prices are automatically regulated, and there is no need in this respect for governmental interference. But the more an industry tends to become a monopoly, the more necessary is it for the State to prevent private proprietors from reaping undue or illegitimate profits, and the greater, consequently, are the advantages of municipal ownership. But a monopoly can always be avoided in the constructive stage of industry; because it can always be arranged that there shall be competition between architects and contractors for the design and building of the works, and between different private proprietors when granting the franchises giving the necessary rights to embark on the industry in question. Water supply in towns

is the most complete monopoly which exists; but the building of water-works can always be let out to tender. There is, therefore, no reason on account of an industry being a monopoly for ever resorting to the direct employment of labour by municipalities in the constructive stage of industry.

In the productive stage, no doubt, many industries inevitably tend to become monopolies; and, where this is the case, the regulation of prices can most easily be effected by civic authorities if they undertake the direct management of the business themselves. In the case of water, it is often very difficult for a city to estimate what will be the actual cost of the supply; because the experience of other cities, and, indeed, the previous experience of the same city, affords but an uncertain guide. Hence the control of water supplies in private hands may present considerable difficulties, and the necessity of regulating prices may make the municipal management of water-works very desirable. But, as regards other industries, if the factors effecting the supply of the product are unlikely to change quickly, and if its quality and quantity are easily measured—conditions which are fulfilled in the case of gas, electricity, and street railways—

then there is generally but little difficulty in estimating the cost of production for some time to come; and in these circumstances, if short franchises with sliding scales are granted, it ought to be possible to enforce a fair scale of prices on private proprietors. In some cases private corporations would probably obtain undue profits, and the average prices in private industry would, therefore, probably be somewhat higher on this account than the scale of prices which would obtain if the industries in question were municipalised, and if the civic management were equally economical. But municipal management will not be as economical as private management; and any small gain which cities may on the average thus reap by the more efficient control of selling prices will generally be more than counterbalanced by less efficient management. Thus this argument in favour of the municipal management of public utilities, other than water supply, is generally not a strong one; though it does point clearly to the serious disadvantages of granting long-period franchises to the private proprietors of municipal monopolies.

The second argument in favour of direct employment, namely, that dependent on the

temptation under which private proprietors lie of neglecting questions other than those affecting their profits, is of more importance; for, undoubtedly, where considerations connected with health and morals point in a different direction to mere financial considerations, the former should generally prevail. As regards the constructive stage of industry, it is obvious that plans and designs must in all cases be made before building is commenced; and opportunities of considering these designs, and, if necessary, of altering them, might always be afforded to the civic authorities whether the work was eventually to be performed by private contractors or by the direct employment of municipal labour. As to the execution of work on approved designs, in the case of the building of sewers, where the work is quickly covered up and where subsequent inspection is difficult, a strong case, though perhaps not a conclusive one, can be made out in favour of direct employment. But as regards building operations generally, where subsequent inspection is not very difficult, we have to weigh the fact that the contractor is likely to be an expert in the construction of works of a certain type, against the fact that he is tempted to scamp his work in

order to swell his profits. Experience appears to indicate that contract work executed under proper supervision is sufficiently good to make it doubtful whether work performed by direct employment is better or worse in quality; and as regards this argument also there appears, therefore, to be no case made out for direct employment in the constructive stage of ordinary industries.

In the productive stage of industry, the fact that civic authorities are not too closely tied to questions affecting profits does, no doubt, tell in favour of municipal ownership with direct employment in the case of many public service utilities which, though the term industry seems hardly applicable, are at times undertaken by private proprietors for the sake of making a profit. It may be right, for example, for a city to manage public baths, in order to promote health and cleanliness, even though a loss is thus incurred; and other services may, perhaps, similarly be justified on the ground that, if a community does not appreciate a good at its true value, civic authorities can stimulate its sale by selling it below cost price. In the case of harbours, again, their municipalisation may be advisable because the whole of the inhabitants

of the cities concerned may be benefited by their maintenance, whilst the levy of a tax may be the only method of making them all pay for the advantages thus received. In weighing the relative merits of public and private slaughter-houses, humanitarian and sanitary considerations may point to the necessity for greater expenditure than private proprietors could easily be made to incur. It is, no doubt, possible that all these services might be left in the hands of private proprietors if bounties were awarded to compensate them for probable losses; but bounties are always open to serious objections. Lastly, where a service is of vital importance to the community, it may be undesirable to lose complete control over it even during the period of a short lease or franchise. Although, unfortunately, perpetual franchises have been granted to the proprietors of water-works in England, the following example indicates that the municipalisation of water supplies would be preferable to private proprietorship even if the franchise laws were reformed. There are reasons, though not conclusive reasons, for believing that in a certain English city the water supply may at any moment become contaminated with the germs of enteric fever

through no fault of the private proprietors of the water-works. In these circumstances it is extremely difficult to force the private corporation to take costly precautions against the threatened danger — precautions which, no doubt, the municipality would take if it owned the works. Thus it appears that, for somewhat similar reasons, the municipalisation of water-works and of a number of other public utilities should receive strong support. But none of the foregoing arguments apply with any great force in favour of the municipal management of such services as the supply of gas, electricity, or street railways; that is to say, to those industries where a loss ought not to be incurred by the municipalities managing them, where there are alternative methods of supplying the wants of the public, and where questions connected with health, morals, and comfort are not very seriously involved.

The main advantages and disadvantages of direct employment having now been discussed, it may be as well to recall briefly the way in which the whole question of municipal ownership is being approached. The different functions which a city may perform have been compared to those of an administrative body,

a landlord, and a manufacturer; and the question under consideration is in what cases should a municipality perform all these three functions? If the city authorities only act as an administrative body, all industries must remain in private hands; if they only act in the dual capacity of an administrative body and of a landlord, then they must lease out such industries as they own to private proprietors for management; whilst, if they undertake all these three functions, they may themselves manage the industries they own by the direct employment of labour. Thus there are three possible methods of operating industries which have to be compared; and, in order to facilitate this comparison, it seemed best to begin by comparing the last two methods; that is to say, assuming a city to be the owner of an industry, the first question at issue is whether that industry should be leased out to private proprietors for management, or whether it should be operated by the direct employment of labour by the municipality itself. It is, in truth, difficult to separate this question from the broader question of municipal ownership; but it may, nevertheless, be convenient first to sum up the foregoing arguments which are all certainly

relevant to the direct employment of labour by municipalities.

Taking first the case against direct employment, the strongest argument brought forward by its opponents is that a large number of voters may thus be brought on to the pay lists of municipalities, and that this would inevitably increase the danger of civic corruption. Then again, as to financial considerations, *a priori* arguments pointed clearly to the probability that the normal result of direct employment would be, not necessarily a deficit, but a loss to the city practising it; whilst English statistics, which, of course, should not be taken as a guide to countries proceeding further along the path of municipal industry than England has already trod, did not refute and may even be claimed to afford a doubtful confirmation of this conclusion.

Thus the probability of greater corruption and of increased cost of production afford the strongest arguments against direct employment. On the other hand, it has been urged by the advocates of this system that municipal workmen are better paid than private workmen; but on examination this argument in favour of direct employment was found to

be invalid. It is, moreover, indisputable that civic authorities obtain a complete control over the prices of goods they produce if they manage the works themselves; and that some regulation of prices is necessary in the case of an industry tending to become a monopoly. This, however, affords no argument in favour of municipal ownership in the case of industries where competition is free and effective; and when indirect competition does exist, as in nearly all industries, and when the prices charged by private proprietors can be fairly well regulated under a system of short-period franchises, the advantages which arise from direct employment on account of the facility for regulating prices are small. Lastly, it is urged that private proprietors, since they must always be seeking for profits, will pay little attention to questions of morals, health, or comfort. But here again it was seen that little weight should be attached to this argument, except in the productive stage of water-works and of a number of other public utilities hardly to be called industries, such as public baths, wash-houses, cemeteries, slaughter-houses, markets, and perhaps harbours.

Opinions will no doubt differ widely as to the weight to be attached to these opposing

arguments; and although my present endeavour is to state arguments rather than conclusions, my own views may, perhaps, be stated very briefly. Direct employment should, in my opinion, always be shunned in industry proper, except in the following circumstances: In the constructive stage of an industry it may, perhaps, be advantageous in the case of the building of sewers, and in a few other cases where the work of inspection is exceptionally costly and difficult. In the productive stage of industry direct employment is only beneficial where three conditions are fulfilled: namely, where there is a strong tendency for the industry to become a monopoly, where it is of great importance to the community—or, in other words, where a loss might reasonably be incurred by the municipality managing it—and where, in the near future, changes in the factors of supply are not improbable against which adequate provisions cannot be inserted in franchises or leases. As regards industries owned by cities and not fulfilling these conditions, including gas-works, electric lighting works, and street railways, it is, on the whole, preferable that they should be leased out for short periods to private proprietors for management.

This conclusion, which is on the whole strongly adverse to direct employment, would

if accepted practically close this whole controversy in England; because the strength of the movement in favour of municipal ownership lies in the desire for direct employment. Direct employment being barred, it would be easy to deal with all the outstanding questions with regard to ownership; and it is for this reason that they have been relegated to a position of secondary importance. They must, however, be discussed briefly, and in my next lecture industries owned by municipalities and leased out to private proprietors will be contrasted with industries both owned and managed privately.

It must, however, be remembered both that the main object of thus dividing the subject was to emphasise the fact that there are two not readily separable questions at issue, and that the result of the comparison next to be made will not be without effect on the question of the direct employment of labour by municipalities. The arguments which remain to be considered are, it is true, relevant to municipal ownership generally; but as direct employment is not compatible with private ownership, to whatever extent these arguments now to be discussed should turn in favour of private ownership, to that extent there will be an additional weight to be placed in the scales as against direct employment.

LECTURE IV

MUNICIPAL OWNERSHIP

In my last lecture the direct employment of labour by municipalities was considered, and the conclusion arrived at was that, as regards the points thus far discussed, civic authorities should, as a general rule, avoid it as far as possible. No doubt in the exceptional cases where it is the best system to adopt, there municipal ownership becomes a necessity; for municipalities would practically never undertake the direct management of labour at works they did not own. But, where direct employment is rejected, it still remains to be considered what are the advantages and disadvantages of municipal ownership: that is, of municipal industry without direct employment. Little time will, however, be devoted to this discussion, both because it is a question of less practical importance at present than that of direct employment, and also because some of the points yet to be considered bring us into close contact with the great controversy between individualism and

socialism—a controversy extending far beyond the scope of these lectures.

Municipal ownership without direct employment may be established in the following ways. A city may initiate an industry; that is to say, having decided, for example, that public electric lighting works shall be built in a certain district, and having raised the necessary funds and bought the land, the civic authorities may leave the construction of the works entirely in the hands of a contractor. In this case municipal ownership occurs in the constructive stage of industry, but without direct employment. Again, civic authorities who have either initiated industries in the foregoing manner, or who have bought them as going concerns, may lease them out for operation to private proprietors. Here there is municipal ownership in the productive stage of industry. It may no doubt be said that municipal ownership of this description is not often met with, as in reality it is generally accompanied by direct employment. This is true; but it merely tends to confirm the belief that the subject now under discussion is of less importance than that of direct employment.

When a municipality raises money in order to establish or acquire an industry, it is, in fact, speculating with the wealth of the tax-payers;

for either their property must be pledged as a security for the loan, or the money must be raised by taxation. No individualist would consider such speculation as quite unobjectionable; and if the industry were bought, many socialists would also protest on the ground that the price paid was excessive. No doubt, in the case of an industry which tends to become a monopoly, the greater that tendency, the less is the risk involved in its municipalisation. But risk cannot be wholly avoided; for the demand for the goods supplied may decrease; and where works are bought at their market value, the price paid always introduces a speculative element. In fact, in all cases some risk, great or small, is thrown on a city by municipal ownership. On the other hand, when a franchise has been granted to a private corporation to permit it to operate any industry, no risk whatever is thus thrown on the citizens as such; and private ownership, therefore, always has in this respect an advantage over municipal ownership.

Against the foregoing advantage, namely, that dependent on the absence of risk, various alleged disadvantages of private ownership have to be weighed in the scales. As to the financial questions involved, these have already been discussed in connection with direct employment,

and the result was that on the whole the balance of argument appeared to turn decidedly against municipal ownership. Again, it has frequently been urged that the interests of the public are more efficiently safeguarded when municipalities own industries, whether they operate them or not, than with private ownership. But, where competition is free and effective, it has been seen that the public, as consumers or tax-payers, require no safeguards, and this argument in favour of municipal ownership falls to the ground in these circumstances. It is true that when there is a tendency for an industry to become a monopoly from any cause whatever, then that industry must be more or less controlled by the State. But here again it must be remembered that, as to the objects sought to be obtained by that control, namely, the safeguarding of the interests of the consumer and the tax-payer, they are exactly the same whether a municipality does or does not own the works in question; and also that any safeguards, which in the case of municipal ownership should be inserted in the leases granted by municipalities to private corporations, can equally well, in the case of private ownership, be inserted in the short-period franchises granted to private proprietors. In fact, it has not yet been sufficiently

recognised that, if a franchise is only granted for a limited period, the State may be said in a sense to retain the true ownership of the industry, although it is nominally a case of private ownership; and that where the ownership is thus in effect, though not nominally, retained by the State, actual municipal ownership presents little advantage as regards the safeguarding of the interests of the public.

Where a corporation has, however, been granted a franchise, giving it the right to manage a monopoly in perpetuity, then the conditions are, no doubt, such as to make it improbable that the interests of the public are being properly safeguarded, and some reform is much to be desired. There is no inherent objection or difficulty in the State permitting municipalities in such cases to convert these perpetual franchises into short-period franchises, the private corporations being duly compensated; and this seems to me to be the wisest reform to be adopted in these circumstances. But if this suggestion is rejected as impracticable, then it appears that the only way for the civic authorities to safeguard the public without resorting to direct employment is to buy out the owners of perpetual franchises and to lease out the works for short periods to private corporations.

Thus far it appears that the case for municipal ownership without direct employment is strong only where, in the case of monopolies, perpetual franchises have already been granted. But, as regards street railways, since municipalities must repair the roadways, there is also much to be said in favour of the control of the whole surface of the street, whether paved with iron or not, remaining in the hands of the civic authorities. With this and a few similar exceptions, the risks involved in municipal ownership make private proprietorship with short franchises the preferable system.

The foregoing arguments deal with the more immediate effects of municipal ownership; but it may well be that the ultimate and indirect consequences are of greater importance. There remain, in fact, to be considered other objections to municipal ownership which are not likely to be seriously felt as long as the bulk of the industry of a country remains in private hands. All capital, however raised, represents the savings of a community; whilst goods produced with the aid of this capital form the stream out of which payment is made for all work and for all saving; and it is urged that this stream, or this national dividend, as it is called, is likely to be diminished

by the municipalisation of industries, to the obvious detriment of all classes. In considering whether civic authorities will, on an average, invest the national capital so as to produce more or less goods than if the same sum were invested by a number of private individuals or corporations, each using an independent judgment, we must regard the nation as a whole, and we must not consider results in separate localities. When the nation is thus regarded, it becomes evident that if municipalities confine themselves to the purchase of going concerns, or to the initiation of such services as would, in any case, certainly be established by private proprietors—if, in fact, they do not by their action directly alter the investment of the national capital, then there is no *prima facie* reason why municipalisation in these circumstances should affect the productivity of the national capital.

It is in cases where cities step beyond these limits that harmful results are more likely to arise as regards the investment of capital. Town councillors must regard themselves as trustees for money raised by taxation from citizens, and this may make them decline to extend their systems of street railways, for example, into districts where losses might

possibly be incurred, even though such extensions would be legitimate speculations for private and willing subscribers: a caution which may make the average receipts per mile of municipal street railways higher than that of private street railways. On the other hand, it has already been pointed out in connection with financial considerations that various circumstances, including the absence of that admirable automatic regulator of private investments, the fear of personal losses, tend to make municipalities invest the funds at their disposal in a rash and unremunerative manner. Municipal authorities are, in fact, likely to be sometimes cautious where they should be progressive, and sometimes progressive where they should be cautious; and, if they enter deeply into industrial enterprises, there is likely to be a shrinkage in the national dividend, and a lowering of the real reward to all classes for their work or saving. In short, municipal ownership in the constructive stage of industry is likely to be very harmful.

Amongst the objections to municipal ownership, the consequent increase of municipal indebtedness is frequently brought forward in England. Putting aside as being out of the question the possibility of property being

taken by the State without any compensation being given to the expropriated proprietors, the establishment of all municipal industries necessitates the raising of money by loans or taxation, the amount required being generally greater where industries are to be operated by the direct employment of labour by the municipalities than if to be leased to private corporations. Now the amount borrowed for such purposes, so it is roundly declared by the opponents of municipal ownership, is so great that the financial condition of many English cities is distinctly alarming. In reply to these pessimistic warnings, it is urged that municipal debts, even if they are unduly large, have been raised for many other purposes besides industrial enterprises; that they are being gradually paid off; that as to the portion of the debt which has been incurred in the purchase of industrial works, a not inconsiderable fraction has already been liquidated, whilst the properties purchased have increased in value since the purchases; and that, consequently, the industrial assets of English cities more than cover their corresponding liabilities. It is true, it may be added, that some new invention may supersede gas, for example, and that, consequently,

most of the capital sunk in gas-works may possibly become useless. But, until this catastrophe becomes imminent, gas-works will assuredly be found in all cities either under public or private ownership, and consequently, if the community be regarded as a whole, it appears that the loss of capital due to these works becoming obsolete would be no more and no less injurious whatever method of ownership be adopted. It follows, so the advocates of municipal ownership conclude, that the municipalisation of the principal municipal monopolies is not an additional source of danger.

This reply to those who advocate the avoidance of municipal ownership because of the risks involved does, it appears to me, considerably lessen the force of their arguments, at all events in the crude form in which they are generally presented. That they are crude is mainly due to the omission to take sufficient account of the fact that the capital of municipal and private industries is raised on wholly different terms. When a city raises a loan in order to buy private electrical works, for example, it in effect forces all the citizens within the taxable area to take part in a speculation whether they wish to or not,

whether they intend to use electricity themselves or not, and whether they believe it a sound investment or not. The civic authorities, in fact, acquire the power to force each taxpayer to borrow, for this purpose, on the security of his real property; and not only to incur this liability to an extent proportionate to his own holding, but also to go security for the money raised on the real estate of all his neighbours. This statement probably needs explanation, and, in explaining it, it will be best for me to deal with England only on account of my imperfect knowledge of American legislation.

If the taxation in any city is increasing, owners of houses and manufactories may try to better their condition by migrating to other localities. An important firm has recently announced its intention of quitting the banks of the Thames in order to re-establish its works in some less heavily-taxed district; and other corporations are considering the advisability of taking such a step. The possibility of a considerable migration resulting from the burden of local taxation is not, therefore, merely a bad dream, but is a condition of things which may actually have to be faced. When houses are left empty, little or no local taxation is levied

on the owners, and, when many houses are thrown on the market, there is, as a rule, a fall in their value, and consequently in the local taxation levied thereon. But a diminution in the revenue cannot be tolerated, at all events in so far as it is needed for the charges for sinking funds and for interest on municipal industrial debts; and this loss of income must be made good somehow. In fact, the remaining tax-payers must take up the burden cast off by the fugitives. If a city with a large industrial municipal debt should begin to decline in prosperity, as may well occur in mining districts, with the departure of each firm or citizen, the taxation levied on the remainder must necessarily be increased. With every such increase in taxation the temptation to fly to more favoured regions would increase also; and thus we have a circle of causes tending to make the city go from bad to worse—slowly at first, then quicker and quicker, and finally full gallop straight to municipal bankruptcy.

It is true that such a catastrophe is not on record, and it is always difficult to estimate the importance which should be attached to hypothetical dangers. Whether the picture just drawn is fanciful or not, time alone will

disclose; but a possibility so serious ought to count for something in this controversy.

Another objection, and one of the very strongest that can be urged against municipal ownership, more especially if accompanied by direct employment, is that a bureaucratic system always tends to destroy initiative and to create stagnation. This want of initiative in government services is due both to its machinery being larger and more unwieldy than that of private industry, and to the absence of the stimulus of personal gain. This subject has also been dealt with in connection with finance; but the resulting evils are such as would not always show themselves quickly in municipal profit and loss accounts. Civic authorities may faithfully copy private firms in all their business arrangements; and, although they may initiate nothing, yet their industrial balance sheets may compare not unfavourably with those of the private corporations thus copied. But, if all industry were in municipal hands, this want of initiative would produce disastrous results: for then there would be no one to copy. In deciding what businesses they will undertake and how they will undertake them, in no country in the world are private corporations given a freer hand than in the United

States; and there is no country which owes more to the inventive genius of its citizens. Those who doubt whether these facts have any connection with each other will do well to enquire what new inventions or processes first made their appearance in State workshops or offices. Initiative of all kinds is inadequately rewarded by democratic governments, and the spirit of progress amongst individuals is, moreover, of slow growth. The establishment of a bureaucratic system in any group of industries in this country would inevitably lead to the slow decay of the inventive spirit as regards those industries, with a corresponding loss to the nation.

There is again another reason for anticipating that private industry will be more progressive than municipal industry, and that is that there is an increase in the tendency for industries to become monopolies when they have been municipalised. It is true that when an industry is an absolute monopoly, it cannot become more monopolistic, and no harm can be done by a step producing such a general tendency. No industry is, however, wholly free from indirect competition, except domestic water supply; and the tendency to become a monopoly in all other industries can therefore be increased. It is also

true that the danger is one to be feared in the future rather than one to be demonstrated as being serious at present. But the advocates of municipal industry in England have distinctly declared that its freedom from private competition is part of their policy; municipal authorities are in a better position in many ways than private corporations to protect their industries from competition; and it is certain that industries will generally tend to become closer monopolies in public than in private hands.

The desire of civic authorities to avoid competition first shows its effects in private competitors being kept off the as yet unoccupied field. As already mentioned, this result was at one time to a large extent obtained in England in the electric industry by the offer of prohibitively rigid terms to private speculators; whilst, in cases where private corporations were willing to come forward, municipalities have often been able to prevent the grant of the necessary franchises. These are the reasons why harmful consequences due to a limitation of competition are likely to be felt in the constructive stage of industry, when, as has been seen, a monopoly need never be tolerated. The desire to check competition, direct and

indirect, in the productive stage, that is when civic authorities have undertaken the management of any industry, has thus far produced far less serious results. Municipalities have, no doubt, established both gas-works and electric lighting works, in which case true competition between these industries can hardly be said to exist. Then, again, local authorities have been known to refuse licences to motor omnibuses on the alleged ground that they would be noisy. Whether in such cases the desire to avoid competition was altogether without influence on the actions of the local authorities may be doubted; for the human mind being such a strange machine, it is quite possible that those in power may have been unaware of all their underlying motives. Few men can play well the parts of judge and aggrieved party at the same time. These checks on competition in the productive stage of industry, though they are not serious, nevertheless serve to indicate the probable trend of events in the future.

The tendency for industries in municipal hands to become monopolies has been spoken of as a danger; but if we should pass on to discuss this danger in detail, we should find ourselves entering on the great controversy between individualism and socialism.

Individualists hold that competition benefits mankind by stimulating progress of every kind, and by enabling the citizen to get what he wants, where he wants it, and as cheaply as possible. Socialism, he believes, is absolutely incompatible with freedom. To all these arguments the socialist replies that to make an industry become a monopoly in the hands of a state would be both a social and an economic benefit. Economically the creation of a monopoly would save the immense waste of energy in the present competitive system, with its advertisements, its unnecessary middlemen and its duplicate plants. Regarded socially, progress would be more rapid with municipal ownership if that progress were measured by true standards; because the capital would be expended for the true good of the whole community. The desire for the common good would, under a socialistic system, make up for the loss of the spur of private interests. Lastly, to wind up the argument for socialism, the survival of the fittest means the degradation of the weakest; and the modern competitive struggle is not only wasteful but cruel.

Summing up the arguments concerning municipal ownership without reference to direct employment, we find that the risk involved,

the anticipated decrease in the productivity of industry, the lessening of initiative and inventive capacity, the increase in municipal indebtedness and the tendency to create or increase industrial monopolies, form the foundations of the arguments against municipal ownership and in favour of private industry; whilst opposing them are to be found the whole battery of arguments in favour of socialism. In cases where the balance is held to go against municipal ownership, the case against direct employment by municipalities is thus much strengthened; for direct employment cannot exist without municipal ownership.

It is true that the arguments for socialism have been given in briefest outline. But it is not proposed here to enlarge upon them, partly because it is perhaps best that the case against individualism should be stated by those who are, not more impressed, but more convinced by it, than myself. Some remarks will be made, at the conclusion of this lecture, on the connection between socialism and municipal ownership; but here it is sufficient to point out that it is logical to hold that the moral are far more important than the financial aspects of economic questions, to admit the crying evils of our individualistic system, and yet to deny

that any suggested socialistic system would be both practicable and beneficial. The foregoing summary, moreover, points to the conclusion that individualists who adopt this position must reject a large increase in municipal ownership both on its own merits and as a stepping-stone to some advanced socialistic system.

GENERAL CONCLUSIONS

In winding up this whole discussion on municipal ownership, it is natural to ask whether we cannot discover some formula by means of which it would be possible at once to decide whether any given industry should be municipalised or not. Such a search would, in my opinion, be made in vain, and all the conflicting arguments must be weighed in the balance as regards each separate industry. Accepting this view, the conclusions arrived at in these lectures may be epitomised in the following sentences:

(*a*) The main question to be considered is when is the direct employment of labour by municipalities desirable; for municipal ownership without

direct employment is not often seriously demanded.

(*b*) The objections to municipal industry are generally much greater if the industry is operated by direct employment than if it is leased out for management to private proprietors; and the objections to municipal ownership, however the industry be operated, are greater in the constructive than in the productive stage of industry.

(*c*) The case for direct employment is strongest in the productive stage of an industry which tends to become a monopoly, when the goods supplied are of great importance to nearly the whole of the community, and when the cost of supply in the future is not easily estimated.

(*d*) Where direct employment is rejected, the case for municipal ownership is strongest when a perpetual franchise has been granted to private proprietors, by means of which they have acquired the control of a monopoly.

(*e*) Each case of municipalisation must be

judged on its own merits; and if either the civic authorities are weak and corruptible, or the number of men employed in the industry is great, or if it be one likely to afford scope for much inventive capacity, or there is any serious competition, then the case against municipal ownership is always strong.

(*f*) Where competition is free and effective, municipal industry is never to be recommended.

(*g*) The choice as regards industries tending to become monopolies lies between municipal industry and the better control of private industry; for the demand for reform is genuine.

Merely to arrive at these general conclusions as the result of our labours is, no doubt, very unsatisfactory. But truth is often unsatisfactory, and that is one of the reasons it is not more often spoken. Neither students nor politicians can do more than master the arguments in this difficult controversy, arrive at broad generalisations, and apply them fearlessly in making decisions with regard to particular services.

SOCIALISTIC IDEALS AND MUNICIPAL OWNERSHIP

Our main enquiry is, therefore, thus concluded. Many questions have been perforce omitted; and, in the short time available, an attempt will be made to fill up some of the gaps thus left by considering briefly the connection between municipal industry and socialism.

Thus far it has been assumed that municipal ownership is an undoubted step towards socialism; and it has no doubt often been asserted that this will prove to be the case because the socialistic party will be assisted in capturing the political machine by means of the direct employment of labour. Whether this is a correct forecast or not, will not be considered: because these lectures do not deal with politics. The question now to be discussed is the extent to which we are realising the economical ideals of socialists by the present method of establishing municipal ownership. The word socialism covers many meanings, and few of us like to be called upon to define it rigorously. It has been suggested by an

eminent German authority that the somewhat vague aspirations of socialists are the result of their belief in two not wholly consistent rights: namely, the right of the labourer to the whole product of labour, and his right to work and wages. The demand for these rights will, at all events, serve as a basis for my remarks.

As to the first of these rights, those who make a crude demand that the whole product of labour shall be awarded to the labourer will generally be found to have but hazy notions concerning the play of economic forces. It is, therefore, sufficient here to note that this demand is closely connected with the demand for the readjustment of the distribution of wealth on the ground that the owners of capital are in receipt of unearned incomes, which should, at all events, be diminished for the benefit of those who toil. That wealth might be better distributed many of us are prepared to assert; and it is, therefore, worth enquiring whether municipal industry as at present practised is, in truth, a step in the desired direction.

Obviously the results obtained will depend on the methods of municipalisation adopted. Here it is not a question as to what would

occur if industries were appropriated with inadequate compensation to the owners. We are discussing municipal industry as it now exists, and in order to narrow the issue, the case of the purchase of electrical works by an English municipality at their market value will be considered as a typical instance. Now the conclusion arrived at on *a priori* grounds in a previous lecture was that the profits made by such a municipal venture would not necessarily represent the gain of an equal amount; and that, assuming the municipal management to be very nearly as economical as private management, the municipal revenues would thus be increased sufficiently to cover the interest on the municipal debts thus incurred, but not to cover a sinking fund for the redemption of those debts. This conclusion indicates, I believe, results more favourable than those which would in reality be obtained; because municipal management is, as a rule, not nearly as economical as private management. But, even assuming it to be correct, the whole of the sinking fund, which is obligatory in England, would have to be provided out of taxation which, with private industry properly regulated, would be unnecessary but for this municipal venture.

But if a sinking fund for this purpose thus necessitates the imposition of additional taxation, it is, in fact, equivalent to citizens being forced to make an investment in return for which no benefit will be received by any one during the twenty to forty years during which the sinking fund runs: that is, assuming that the instalment system is in force. At the end of this period, not only will no tax be levied for the sinking fund, but the interest on the loans raised for the purchase of the electrical works will no longer have to be found out of the profits of those works, and a considerable surplus from these electrical works will then be available as part of the municipal revenues. In other words, the community will begin to draw the interest on its investment. Thus there are two periods to be considered: there is the period of investment, as it may be called, when taxation is being levied for the purchase of the works; and there is the period of reward, when the city reaps the benefits arising from the sacrifices of its citizens.

Having made these various assumptions, which necessitate, in my opinion, a too favourable view of municipal management being taken, and which merely postulate well-regulated private industry, the problems for

consideration are as follows:—On whom does the burden of the extra taxation fall during the period of investment? To whom do the benefits, due to the increase of revenue, accrue during the period of rewards? And, lastly, will the final result be a more equitable distribution of wealth amongst the different classes of the community?

As the first of these problems, or that of the incidence of local taxation, has been much debated, it need not here be discussed. It must, however, be noted that economists generally agree that normally both landlords and tenants are hit to some extent by onerous local taxation, whoever pays the tax-gatherer; and, this being so, the payment of a municipal sinking fund out of taxation is equivalent to forcing both parties to invest money in municipal works, an investment for which no return is received during the period of investment.

Difficult as is this question, it is even harder to determine who it is who, in truth, will benefit by the increase in the municipal revenues which will be received after the municipal industrial debts have been redeemed. The distribution of the benefits during the period of rewards will obviously depend on the policy adopted by the civic authorities.

Many alternatives will be open to them. They may then expend this additional revenue by raising the wages of their municipal employees; but to favour them thus is unjustifiable, and this alternative may therefore be dismissed. Again, they may increase the local expenditure: a very probable proceeding. Or they may lower the price of the electricity they sell, and thus reduce the revenue to its previous level. Or, lastly, this same result may be obtained by a reduction of taxation. These three last alternatives must be briefly considered, with reference not only to direct results, but also to those indirect considerations which so often in economics give the lie to obvious conclusions.

As to the first alternative, if, during the period of rewards, the local expenditure will be increased in such a manner that the benefits to the poorer classes will be proportionately greater than the injury which had been inflicted on them by taxation during the period of investment, it follows that the rich will have been taxed in the first period for the ultimate benefit of the poor. This is, no doubt, a result in accordance with socialistic aims. The services for which this additional expenditure is to be incurred must, however,

be carefully selected in order to make it certain that the result will not be the opposite to that desired.

Passing on to the second alternative, namely, a reduction in the price of goods sold by municipalities, the effect on the distribution of wealth would depend on the nature of those goods. In the case of goods of very general consumption, such as gas in England, it is probable that a reduction in price would also be in effect the grant of a benefit to the poor at the expense of the rich. There are, however, certain economic objections to goods being sold below what may be called their competitive price, some of the evil consequences of the award of a bounty to a manufacturer thus being produced. Moreover, municipal industry is not now confined to the manufacture of "necessaries," and a lowering of the price of State-made luxuries below a certain level would be in effect to tax the poor for the benefit of the rich. Socialists would defeat their own aims by reducing the price of electricity in England, for example, where it is chiefly used by well-to-do people.

With reference to the last alternative to be considered, namely, the reduction of taxation during the period of rewards on account of

the profits arising from municipal industries, this on general grounds is the rational policy to adopt; for, as it was the tax-payers as a body who supplied the funds for the purchase of the municipalised industries, the tax-payers as a body should reap the rewards coming from such investments. If this were the policy adopted, taxation would fall on the different classes of the community in the first period in the same proportion as that in which the relief from taxation, or the resulting benefits, would be felt in the second period; and the obvious conclusion is that the effect on the distribution of wealth would be neither contrary nor favourable to socialistic ideas.

Thus far only the more obvious results have been held in view. Of the indirect consequences, the first to be noted is that due to the fact that an increase of taxation resulting from the payment of a sinking fund on urban debts would fall on the city only, and not on the country round it. There are always some persons on the actual margin of doubt whether to abandon city life, and they would be induced to migrate into the country by any increase in urban local taxation. There would be, therefore, a certain outflow of the population in the period of investment, and one result

of this outflow would be that rents would fall. Taking the extreme theoretical limit, the rent of a house might fall by an amount equal to the increase in taxation thereon; or, in other words, the remaining tax-payers might be able to shift the whole burden of the increase of taxation on to the shoulders of their landlords. It is practically certain that this limit would not be reached; but it is equally certain that urban landlords would find their rents reduced to a certain extent in consequence of any increase of local taxation due to municipal industrial sinking funds.

It may be urged with some truth, however, that time would not be given during the period of investment for the increase of taxation to produce its full effects. But, in considering the effects in the subsequent period, this objection cannot be urged; because the benefits due to the increase of revenue consequent on the redemption of the municipal industrial debts would last for an indefinite period. During this period, the period of rewards, it can be shown that an opposite effect to that produced during the period of investment would be experienced: namely, that there would be an inflow of the population, and that some of the resulting benefits

would be transferred to the landlords from their tenants in the form of an increase of rent due to this increased attractiveness of the town.

The effect of such changes in the conditions of urban life is, therefore, that, during the period of investment, when taxation is being raised for a sinking fund, ground landlords are damaged by a decrease in rents, whilst in the subsequent period they are benefited by a rise in rents; and, in the extreme limit, the whole tax falls on the landlords and the whole benefit accrues to them. If this limit were reached, municipal industry would cause no transfer whatever of wealth from class to class; and the more nearly it is approached, the smaller becomes the field in which socialistic effects can be produced.

Time permits me to mention only one other of the many influences which tend to modify the primary effects of municipal industry on the distribution of wealth. By taxing the richer classes, capital might be transferred from its owners to the State; whilst, in the case of the poor, such taxation as was thrown on them might merely diminish their available incomes. Assuming the burden of taxation to fall in this manner on rich and poor, and

assuming the revenue derived from the investment of the funds thus raised in municipal industries to be used for the benefit of all classes, the result would, no doubt, be that the poorer classes would be benefited at the expense of the rich.

Any such method of compelling the rich to invest a large portion of their capital for the benefit of the community at large instead of for their own benefit would be, however, surrounded by dangers if carried very far. In the first place, a great increase in the taxation falling on the captains of industry would lessen their energy, and thus check the commercial progress of the nation, to the material injury of all classes. Again, there would be a temptation to expend some of the capital thus drawn from the richer classes, not in the establishment of municipal industries, but in ordinary current municipal expenditure; and, if this were done, the national savings would thus be reduced, and progress to that extent would be checked. Moreover, many persons called poor are, nevertheless, truly capitalists, because they belong to trades unions, benefit clubs, or insurance societies; and taxation must be skilfully arranged not to draw a larger proportion of capital from the poorer capitalists than from

the richer ones. Lastly, in spite of this taxation, the richer classes might become still more relatively rich; and their portion of the benefits to be derived from municipal investments might in this case tend to increase rather than to diminish. For these reasons it is, therefore, not unlikely that this plan for benefiting the poor might increase either their actual or their relative poverty. But if all these dangers could be avoided, no doubt by taxing the capital of the rich for the sake of establishing municipal industries, socialists would be travelling along the path sought by them.

To sum up this discussion on distribution, it appears that, if the poor are to be especially benefited by the establishment of municipal industries, either capital must be drawn in greater proportion from the rich than from the poor, or the revenues thus obtained must be devoted either to a reduction in the price of the necessaries of life produced by municipal enterprise or to some expenditure especially designed to benefit the poorer classes. But, if the revenue is raised by merely taxing incomes, and if the proceeds of any municipal investment are devoted to a reduction in taxation, which is the rational policy to adopt, municipal industry will benefit or injure all classes alike.

Again, the poor may find themselves poorer from what is called a forward municipal policy if the prices of luxuries are thus reduced, or if the progress of the country is thus checked, or from other indirect effects. Lastly, the scope for the production of socialistic effects may be greatly reduced in consequence of both burdens and benefits being transferred to ground landlords. It appears, therefore, that the establishment of municipal industries according to existing English methods is a clumsy, and an uncertain, and, if carried far, a dangerous method of attempting to bring about a redistribution of wealth.

Even if it be assumed, however, that it would be wise to raise money by taxation and to invest it for the benefit of any selected class of the community, it still remains to be asked why it should be invested in municipal industries. This is, indeed, the more important question in existing circumstances. A wise man in making an investment looks mainly to the return which it will yield and to its safety; and a wise city should act in like manner. As to the interest on the investment, and remembering the difference between gains and profits, we have seen reason to believe that municipal industry has, to say the least, nothing especially to

recommend it as an investment. Putting the question of interest entirely aside, however, and looking only to safety, the wise man who is in debt will normally pay off that debt with any available money which may fall into his possession, rather than use it for some speculative investment. Again, if in debt, and if raising money by taxation which is not needed for current expenditure, the wise city, acting in like manner, should not invest that money for the sake of making a profit, but should rather use it to pay off its debts. But such a city must, as a rule, I think, impose additional taxation for the sake of establishing a municipal industry, though the fact that this is so is, as a rule, entirely unperceived; and this is, therefore, objectionable if the municipal industry is established for the sake of making a profit. It is objectionable, because if the city's debts were paid off by this additional taxation, the revenue would thus also be increased, and increased in a safer manner. Thus, if the socialistic plea for municipal industry is that additional revenue can thus be obtained to be used for the benefit of the poor, this plea breaks down entirely in the case of all cities with debts other than industrial debts: that is, in the case of every large city known to me.

It may, perhaps, be urged in reply that by the purchase of electrical works, a city will, at all events, capture in future the unearned increment of value due to its own growth; and, for this purpose, it may be wise to run into debt. That an unearned increment of value may thus be captured is true. But, as already pointed out, this increment may in effect be partly re-transferred to the ground landlords; and, moreover, steps cannot be taken for its capture without some danger of the unearned decrement being captured instead. The main point, however, to be noted is that the unearned increment can be captured almost equally well, and without any risk, by granting suitable franchises to private corporations.

The mention of this subject tempts me to diverge in order to point out that municipal industry may create a new form of unearned increment of income. Take the case of a city where gas, for example, is being sold by the civic authorities at a price below the cost at which it can be produced in neighbouring localities: this result being due to the purchase of the gas-works by the city out of the compulsory savings of its citizens. If any person was to migrate to that city from any neighbouring locality where he had not been thus compelled

to save for the purpose of purchasing public gas-works, would not the purchase of gas below cost price in his new home be to him an entirely unearned decrement of expenditure? And would not this, or any other similar advantage arising from the past savings of his new neighbours, be equivalent to an unearned increment of income? Yet it would be impossible to prevent immigrants from gaining such unmerited advantages without restricting the right to free movement on the part of the people, a right which is essential to the progress and prosperity of the working classes. May not municipal industry, therefore, give rise in the distant future to a temptation to impose some such injurious restrictions? True, the temptation may be lessened because the increment of income may mainly accrue to the immigrant's landlord, and not to the man himself; but this is but a poor consolation to the socialist.

But even if cities do not endeavour to retain for their own citizens the benefits of their savings in some objectionable manner, it does seem probable that, just as individualism is inevitably accompanied by competition between individuals, so will municipal industry, as distinct from national industry, inevitably tend

to produce competition between different cities in certain circumstances. Municipal socialists are, no doubt, honestly striving to avoid the admitted evils of the existing competitive system; but they seem blind to the fact that the new form of competition which they may be creating may also be attended by serious evils. Competition between civic authorities will, it is true, only be felt when competitive industries are municipalised. But even now some English cities are spending their money in establishing places of amusement for tourists and in advertising their attractions; although such advertisements are no less wasteful than those in private industry, and although their success, by drawing away visitors from other localities, would be an indisputable injury to their rivals. History teaches us that commercial rivalry is one of the most deep-seated causes of national enmity; and it is therefore quite conceivable that such commercial struggles between cities might in future become very bitter and harmful. Here, then, is another argument in favour either of strictly limiting municipal industries to local monopolies, or of national industry as opposed to municipal industry.

But these vague speculations as to a possible

future must no longer detain us, and we must return to the straight path of our argument—namely, to the consideration of the question whether municipal ownership is a step in the direction of awarding the whole product of labour to the labourer. If a transfer of wealth from the rich to the poor is the end sought, we have seen that it is but clumsily and ineffectively attained by means of municipal ownership; and that, when a city is in debt, it would be wiser to attempt to attain this end by imposing additional taxation in order to pay off that debt. Municipal ownership is, in fact, not the best step that can be taken in the desired direction; and rational socialists should rather devote their attention to questions connected with taxation if a redistribution of wealth be their main object.

The second of the rights on which the aspirations of socialists are said to be based—namely, the right to work and wages—still, however, remains to be considered. In its crudest form, if made in connection with municipal ownership, the demand for this right is a demand that every man who is out of work shall be given employment at a municipal industry. This demand could not be granted without the establishment of some

very advanced socialistic system; and it must, therefore, be dismissed as being outside the scope of these lectures.

The general question of the unemployed may, however, be held to be closely connected with this right to work and wages; and it is, therefore, not out of place to consider briefly whether municipal ownership tends to make employment more or less regular. Where municipal industry is carried on like other industries, and where employees are dismissed when their services are not likely to be required for some little time to come, then obviously the regularity of employment is in no way directly affected by the municipalisation of a number of industries. To conduct industry thus is, however, certainly not the ideal either of socialists or of individualists; and, although the latter may see no way of avoiding the resulting evils, the advocates of municipal industry certainly do hope to make employment more regular by the municipalisation of industry. When the London County Council last winter began to lose heavily by its steamboat service, one councillor declared that it was a point of honour to keep their employees in regular work, profit or no profit; but in this case honour was vanquished by the London fogs,

and the steamboat service was suspended when the loss became very great. Civic authorities will no doubt, however, as a rule, incur greater losses than private proprietors in order to retain their hands at work; for it requires some courage on the part of the vote-loving councillor, even when he believes that municipal employees should be treated no better than private employees, to act on that belief. To retain extra hands must add to the cost of manufacture, and such action on the part of civic authorities must result in prices being raised, when consumers are in effect taxed, or in a diminution of profits, when an additional burden is thrown on tax-payers. Such additional burdens may exist unfelt at all times; but the probability of unnecessary hands being retained in municipal industries is greatest when trade is slack. Taxation always discourages industry; and the additional burden thus thrown on consumers or tax-payers in long periods of depression must tend to increase the evil. Thus the municipalisation of many industries, and not of all industry, would benefit the employees thus municipalised; but it would add somewhat to the sufferings of that margin of indifferent workmen in private industry, who always find it

hard to obtain employment. The lot of the working classes would become more unequal, not more equal; and a step contrary to the ideals of socialists would in this respect have been taken.

Thus, whether the right to the whole product of labour or the right to work and wages be the guiding principle of socialists, we see that little or no progress is made in the desired direction by the mere municipalisation by present methods of a number of industries. Socialists, no doubt, however, wish to municipalise one industry after another until all capital is thus nationalised; and it is by the results hoped to be obtained in this final stage of social evolution that they would be judged. Municipal ownership and socialism are no doubt different; but surely it is most improbable that, in cases where harmful results immediately spring from municipal ownership, it can be the right step to take whatever be the ultimate goal we should, in truth, seek to reach. Would not a very widely extended experiment in municipal ownership afford a valuable indication of the conditions which would exist under a completely socialistic system? With this end in view I should rejoice to see such an experiment tried in

any country but my own. If the result was that taxation direct and indirect was no heavier than at present, that corruption was not increased, and that progress was not checked, then I should have to own that I was mistaken, and that socialists might fairly point to such results as telling strongly in favour of their views.

But does not the amount of national and municipal industry now in existence constitute a sufficient basis to enable impartial enquirers armed with full powers to arrive at reliable conclusions? Rational socialists, who only wish to see their proposed system introduced if, in truth, it would be beneficial, should join with individualists in insisting on a thorough and searching investigation into the facts now before us: an investigation which has thus far been somewhat shunned by the advocates of municipal ownership in England. Cannot we all agree that our wisest course is now to study what we see rather than to advance further along a path which may prove to be leading us astray? If socialists are right, this might not even cause delay; because their case would thus be strengthened. If individualists are right, the gain might be enormous; because attention would thus be

directed to more rational methods of social reform.

There is, however, no chance whatever that such a policy of waiting and investigating will be adopted; and we in Europe are destined for a time to march in the direction of socialism. By all means, therefore, let socialism be studied. As already remarked, this word covers many meanings. At one end of the scale it merely denotes the desire to benefit our fellow-creatures — an object for which all can unite. At the other extreme it means a definite and formulated method of placing the production and distribution of all goods under the management of the State. These may be, indeed, very different medicines, and we must be on our guard against those who would induce us to swallow a stronger dose at the same time as a weaker one, by including both within the same coating of sugar. The mere mechanical difficulties connected with the distribution by the State of all work and of all rewards for work done are appalling, though conceivably not insurmountable. But the difficulties which lie deep in the roots of human nature are even greater. If some fairy, by a stroke of her magic wand, could make all our local administrators as diligent in their public

duties as in their private affairs, as ready to consider the claims of minorities as those of majorities, as anxious to look to the future as to the immediate effects, and also wholly incorruptible, then this would be not a step, but a leap in the direction of true social reform, and a leap at which we should all rejoice. In such idyllic conditions, no doubt many additional duties could be thrown on elected bodies. But even then I could not call myself a socialist according to the most extreme meaning attached to that word, unless convinced that under any proposed socialistic system I should retain my sense of freedom, and that others would retain those powers of initiative on which the progress of the world depends.

Those of us who feel compelled to abandon the dream of formulated socialism should not be discouraged as reformers. We should look for guiding lights elsewhere. It may sometimes be right to do present harm that future good may come; but the future good must be most clearly demonstrated before this is right. The world we see around us has been developed by little steps, each step being taken solely because of its fitness to the immediate conditions; and we must be cautious in endeavouring to improve upon the system of